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# POLITICAL ECONOMY

FOR

HIGH SCHOOLS AND ACADEMIES.

BY

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BOSTON, U.S.A., AND LONDON :  
PUBLISHED BY GINN & COMPANY.

1896.

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## P R E F A C E.

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THIS work is the result of twenty-five years of experience in teaching the subject in the University of Pennsylvania, in the Ogontz School for Young Ladies, in the Central High School of Philadelphia, and in University Extension courses delivered in Philadelphia and the adjacent towns and cities. In this prolonged practice I have aimed at acquiring clearness and conciseness, without coming down to twaddle and commonplace. My experience at Ogontz has been of especial value to me in this respect, as it was there that I learned to adjust teaching to the understanding of younger students, without insulting their intelligence by "talking down" to them. That lesson I found just as useful in addressing the more miscellaneous audiences, young and old, trained and untrained, which University Extension work brings together.

The book presents the views of Political Economy which are held by the American or National School of List and Carey. I leave it to be judged whether these or the rival doctrines of the English or Orthodox School—whether as originally taught, or as modified by what is called the Historical School—are most in harmony with the experience of mankind and the needs of our own country. In treating

of Bimetallism and Protection especially, I have been obliged to tread on the ashes beneath which the lava glows. I have tried to walk on the straight line of justice, and to deal with entire fairness in discussing opinions which I do not share.

In using the book teachers will deal with the Notes in small print according to their judgment. They contain matters which I thought the student should know of, but which it is not necessary for him to study. I would suggest that in no case should the words printed in *Italics* be passed, until it is known that the class has a clear sense of their meaning.

PHILADELPHIA, June, 1895.

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# POLITICAL ECONOMY FOR HIGH SCHOOLS AND ACADEMIES.



## CHAPTER I.

*What Political Economy is, and how it came to be.*

1. **ECONOMY** means housekeeping. In early times housekeeping was much more of an affair than it now is. The people of each house built their own home, fashioned their tools, tanned their leather, got ready their wool and flax for spinning, spun and wove them, made their clothes, and in fact produced all or nearly all they needed, instead of buying them ready-made. Each houseful was a group much larger than a family, and it provided itself with whatever it needed.

2. It is that kind of housekeeping that we mean when we speak of Political Economy, which is the housekeeping of the nation or State. It is not merely keeping the house clean, home-like and wholesome, seeing that the food is wholesome, and that the outlay on what is bought is no greater than the income. It is, as in the early household, seeing that all who can work are busy at work which needs to be done, and that there is plenty of material on which they may work, and a proper distribution of what is made according to the needs of each person. There is indeed some buying and selling with other national households. We send them what they cannot so well provide themselves and we take in exchange what they have that we do not



inflow of Gold and Silver into Europe, where there had been a growing scarcity of both. It made Europe quite a different continent in the course of a hundred years. It put men to work to improve farming, set up manufactures, build ships, improve harbors, enlarge and beautify cities. As people could not but see the great difference this made, they began to ask why it was. The first simplest answer was that it was plenty of money that made a nation prosperous and its people industrious. And so the first economists spent their time in planning how to get money into the country, and keep it from going out. Some of their plans were rather foolish.

5. Others who watched the change more closely saw that money was not everything. Spain had got more of the new Gold and Silver than any other country, but did not grow rich thereby. Money flowed out of Spain as fast as it flowed in, because her people were not industrious. It stayed with the countries whose people were willing to work, but had been prevented from finding employment by the want of money, in a way which will be explained hereafter. So these writers, whom we shall call economists, said that the country which had the most industries and fewest idle people, would both get and keep Gold and Silver. They would have more to sell to their neighbors, and would need to buy less from them, and the "balance of trade," as they called it, would be paid in coin. So they urged governments to favor the establishment of as many industries as possible, by paying bounties on their products, or by taxing imported goods which could be made at home.

6. As time passed, the impression produced by the results of the inflow of Gold and Silver became weaker. The subject began to be studied in other ways. A second school of economists arose in France which taught that natural wealth is to be sought neither in money nor in any industry

but farming. Only the tillage of the soil, they said, gives us a real addition to what we have already. Manufactures only change the form of things, just as commerce only changes their place. A yard of cotton cloth is but so much raw cotton plus the food needed to support the workmen who spun and wove it. And both the cotton and the food are the result of tillage. They therefore taught that it was foolish to be trying to have other industries established than agriculture, and wished the State to allow entire freedom of trade.

7. A Scotchman called Adam Smith studied very closely the writings of both schools, and worked out a theory of his own, which became very popular. He asserted that all kinds of industry help to make a people rich, but farming does the most, while trade does the least ; manufactures coming between the other two. He believed that all three would grow up naturally, and without the government doing anything to promote them. So he too advocated Free Trade between nations, while he also taught that trade at home, and especially between town and country, is far more profitable to the nation. He declared that if every man were left free to "do what he will with his own," he would always do that which is best for society also. So he reduced Political Economy, as an art, to doing nothing besides collecting taxes and regulating the issue of money. In fact the idea of the State as a household, with common interests requiring a common management, disappeared. Every man was to be left to shift for himself, except that government was to protect him against theft and outrage.

8. While it was some seventy years before these new ideas were avowedly adopted by any country, yet they began very soon to give a new direction to public policy. Governments became less meddlesome. They stopped trying to fix the price of bread and the rate of wages, and to keep manufactures up to an established quality, by their inspection.

Labor was set free from the restrictions of the guild system, so that a man might practice any trade without having served an *apprenticeship*, and might open a workshop as a master or employer, without having been a *journeyman*. Men were thrown more upon their own resources of mind and character, and were told not to lean upon the government. There was thus a great development of self-reliance and of enterprise. New inventions made labor more productive, and enabled employers to organize it on a large scale. The factory and the steam-engine replaced the hand-labor of the old workshop.

9. Not all classes, nor yet all countries, prospered equally in this age of free competition. The working classes felt that they were getting the worst of it, as the power of the modern capitalist over labor was vastly greater than that of the old master in the guild. They therefore declined to stand each by himself, and take his chances of work and wages, as the new economists said was best. They organized their Trades' Unions to control and restrict competition in the labor-market, and by this means they exacted better wages and reduced the hours of labor. Some of them, not content with this result, propose to put an end to free competition altogether. They want the State to take possession of all the capital, and to employ all the labor of the country, paying each man the largest wages his work will procure. There have been some very able writers among these *Socialists*, Karl Marx being the foremost. There is also a school of Political Economists who try to satisfy the Socialists by going half-way. They believe in extending the power of the State to the control of industry, to the insurance of laborers against loss of employment and sickness, and to the ownership of railroads and telegraphs.

10. The less wealthy nations also suffered from this free competition, wherever it was adopted in trade between them

and their richer neighbors. That natural growth of the industries, which Adam Smith promised, was not helped but hindered, or rather prevented, by the competition of foreign manufactures. Countries which had possessed manufactures lost them; those which had none failed to acquire them. Both were kept on the level of merely farming their lands to produce food and raw materials, which the richer countries took in exchange for hardware and dry goods. In this trade the rich grew richer, but the poorer countries poorer. These "sold the hide for sixpence, and bought back the tail for a shilling."

It was this experience which drove the less wealthy countries generally to adopt a system of Protection to Home Industry. They laid duties on the imported articles which might be made at home. Thus they tried to discourage the use of foreign wares, and to secure the growth of manufactures alongside their farming.

11. At the same time there arose a school of writers on Political Economy who showed the reasons for this policy. They agreed with Adam Smith that all the three great industries — farming, manufacturing and trading — are sources of wealth, and necessary to the general welfare. They also said, as he did, that of these farming is the most important, and trading the least so; and that trade between town and country is vastly more profitable to the nation than is foreign trade. But they showed, not only from experience, but from the reason of things, that a poorer and more backward country cannot expect to obtain a well balanced growth of the three great industries unless its government takes pains, and its people will make sacrifices, for that purpose. Of this school Frederick List in Germany and Henry C. Carey in America are the foremost writers.

12. Political Economy is National housekeeping, after the manner of our forefathers when each family was an

industrial unit. As an art it is as old as government itself. As a science it dates from the discovery of America, when the effects of a new supply of money set men athinking as to the reasons for the great change this made. First money was the chief thought; then agriculture. Adam Smith founded the school of "natural liberty," whose teachings came into practice, but caused in later times a reaction on the part of weaker classes and nations. The National school of List and Carey justify this reaction, and present the whole subject from a new point of view.

## CHAPTER II.

### *The Conquest of Nature.*

1. THE good book tells us that man was put into the world with orders to "replenish (or fill up) the earth, and subdue it." Our well-being depends on our subduing its forces to our service. Some things nature gives us without an effort ; but these are very few, and not enough to keep us alive. She is more exacting of men than of the lower animals, who generally find their food at hand, and have at most to catch it as it moves or flies, or gather it as it grows. And as more is demanded of man, greater power of intelligence has been developed in him, or given to him, that he may meet the demand.

2. *Savage* man lives a good deal as do the lower animals, on what nature offers him without his foresight being brought into play. He kills wild beasts and birds, catches fish, gathers fruits and nuts, collects nutritious roots and seeds. The quantity of these to be found in a given area is generally so small that a single family needs square miles of earth's surface for its support, and often suffers greatly from want at that. The savage's condition is one of almost constant hunger, broken by surfeits of food when a supply is obtained. He starves over an area which would supply an abundance of food to a thousand times as many people, if it were brought under cultivation. Thus at the discovery of America the present area of the United States was occupied by about a quarter of a million of Indians, and these—except where the supply of fish was abundant—suffered from frequent famines.

3. The *barbarous* tribes rank a grade higher than the savage. They generally begin their advance from the savage condition by bringing some of the useful animals, the sheep or the ox for instance, under control, and thus creating flocks and herds, upon which they depend for food and clothing. As these animals find nourishment in plants on which man cannot feed, the shepherd and cow-tending races derive far more sustenance from a given area than can the savage. Their food supply is far less uncertain; and the habit of caring for animals, instead of simply killing them at sight, develops in them gentler and more humane ways of dealing with each other. As they are more confined to the places on which they find pasture, they have better opportunity of studying its vegetation as a source of supply for food and clothing; and they begin to cultivate some plants in preference to others, gathering seeds in the fall and planting them in the spring. Under this tillage these plants naturally improve as food-producers.

4. Our own continent was retarded in the development of its people, by the want of animals like the sheep and ox. It was the greater density of the population in the warmer countries, to which the Indian tribes thronged to escape the northern winter, that drove them to till the soil and cease depending on what nature offered without labor. Out of a species of wild grass, which still grows in southern Mexico, they developed the maize plant by artificial selection. They also cultivated the cassia root, and the cocoa, and various species of grains. To secure a water-supply in many places they had to construct stone aqueducts; and to know when the time had come for planting they had to study the calendar of the year. Thus a rude architecture and a ruder science were forced upon them by their necessities; and the denser population made it both necessary and possible

for them to undertake works which the weaker tribes of the north never attempted.

5. *Civilized* man does not depend upon what nature offers him, but obtains intelligence of nature's forces, and uses this to subdue them. He finds abundant resources where the savage and even the barbarian can get but little, and is thus enabled to support a large population on an area where a handful of savages or a barbarous tribe would starve. He exercises a careful selection in the vegetable and animal kingdoms, exterminating those species which are unfitted to his use, and developing the others into greater usefulness. He adds to the wealth of the soil by manuring, and widens the area of tillage by draining wet lands. He brings the forces of nature—wind, water, steam and electricity—into his service, and adds their power to his own. Thus with every year he becomes more fully master over nature, and better able to supply his wants out of her stores.

6. As in the warmer parts of America, so probably in Asia and Europe also, it was the growth of population which drove men to give up the old savage way of living, and then that of the barbarian, and to adopt methods which would increase the food supply. It was the same increase of population which made the adoption of better methods possible. A single man, or a mere handful of men, is unable to achieve the conquest of nature we call civilization. When a handful of settlers, who have been brought up in civilized ways, find themselves alone in a new country, they have to go back to barbarous ways of providing for their wants. They are too weak to do better, and they run the risk of dying for want of food in the midst of natural resources capable of supporting a dense population. Hence the failure of so many small colonies and settlements in our own history. They were destroyed or beaten back by abso-

lute want; and those which succeeded did so at the cost of undergoing severe hardships of cold and hunger, and consequent sickness.

7. Single men and small bodies of men are weak in the presence of nature. She is their mistress, not they her masters. They must take what she chooses to give, and retreat or perish if her gifts are not sufficient for their needs.

Large bodies of men, united by industrial association for the mastery of nature, are strong in her presence. They can wrest from her what they need. They can clear away her forests, drain her swamps, bring the soil under tillage, and secure a larger share of necessary things for each, than when a small number seemed to possess everything.

8. *Association* with his fellowmen is man's first need, if he is to attain a comfortable existence. By this term "association" is meant not only a conscious and understood agreement between several men for the pursuit of a common object; it means the interlacing of men's lives in mutual service, even though they never have seen each other's faces. Thus when I buy a barrel of flour, I am acting in association with the farmer who grew the wheat; the trader who bought it of him; the miller who ground it; the barrel-maker who prepared the packing which holds it; the railroad men who brought it from the mill; the dealer from whom I bought it; and many others besides these. Of the whole series I know only the last, yet each of them has been serving me; and I in turn, by my payment for the flour, have been serving each of them. It is this association which is the mark of a civilized life, and which makes it possible for millions to have the use of more food and clothing than hundreds did before.

9. The power over nature which we attain through this association, we call *wealth*. As it is not a single man, but

the whole body of men in the country, who acquire this power, wealth is first of all a social possession. When we speak of individual men as wealthy, we mean that in the distribution of this power a larger share has fallen to some than to others. This is just when it is the result of greater personal intelligence or capacity, which has enabled these to render greater services to society than others have. It is unjust when it has been obtained by force, as in the conquest of a weaker people by a stronger, or by fraud of any kind. So long as men differ in ability, some will command a greater share of the results from subduing the world to our use than others do. We have a right to complain of this only when they have got their larger share by wrong ways.

10. While wealth is the same as power over nature, *value* is the measure or indication of nature's resistance to our obtaining the things we need. It is not the same as *utility*: air and water are the most useful substances we know of, but air has no value and water very little, because they are so plentiful.

Value does not depend on mere scarcity, for there are some very scarce things for which there is very little demand, as they have no use that we know of. To be valuable a thing must be wanted for use, or for ornament, or as a curiosity, and also must be something we cannot get without an effort. If we can reduce the amount of effort needed to obtain it, then the value falls. If there be a great decrease of the supply, then the value rises. The value of diamonds has fallen since the discovery of the diamond-mines in southern Africa, while rubies and emeralds are as valuable as before. The value of petroleum has risen since the Pennsylvania oil-wells began to give out.

11. It is not always true that value falls proportionally to an increase of the supply. If new uses are found for the

article, and a greater demand is thus created, its value may remain much the same, or the fall in its value may be much less than the increase. Thus between 1492 and 1792 the supply of Gold and Silver coin in Europe increased thirty-fold by importation from America. Their value, however, fell not to one-thirtieth, but to one-twelfth of what it had been before America was discovered. In this connection it is necessary to remember that Gold and Silver are not metals whose value remains fixed. They are called the precious metals because they are the rarest for which men have much use, and are therefore the most valuable that are largely used. Their value varies from time to time with the demand for them, and with the supply, just as does the value of iron or of wheat.

12. As nearly everything we have a use for keeps falling in value, through our devising better ways of getting it, or finding new supplies of it, the price we pay for articles is not always what it costs to produce them. If we can reproduce or replace them with less outlay of labor than when they were made, we will not pay more for them than they would now cost. Thus a house that has stood for a century is not worth what it cost to build it. All the materials of which it is made had to be hauled to the site by horses or oxen. The bricks in the walls were made by hand. The timber was cut into boards in a saw-pit, one man pulling the saw up through the log, another down. The boards were planed by hand. The glass was made by a laborious method. All these things are done more cheaply now, mostly by machinery and steam-power. So we are willing to pay for such a house only what it would require to build another house like it, using modern tools, machinery and the like.

13. The *price* of anything, therefore, is not the cost of making it, but the cost of replacing it, or making another

like it. In some cases, as of articles recently made, the two costs are the same. In the case of the bulk of the wealth of a country the two are not the same. The present price of a State like Pennsylvania, for instance, is not equal to the amount of labor expended in clearing, fencing and draining the fields, making the roads, streets and railroads, building the houses, bridging the rivers, sinking the wells, digging the mines, tunnelling the mountains, and so forth. It is only the cost of the labor needed to have taken Pennsylvania as William Penn found it, and to make it what it is by means of modern machinery, tools and appliances of all sorts. Even if we deduct all the labor whose results have been consumed, we shall find that Pennsylvania cost a great deal more than it could be sold for.

14. With the progress of intelligence, and the growth of numbers, man acquires the power over nature we call *wealth*, while the *values* of the things we desire fall. Mankind passes through savagery and barbarism to civilization, through increase of numbers and of industrial association, which this makes possible. The more people in a country, the larger should be the share of necessities which falls to each. Men pass from worse to better in land, labor and food.

## CHAPTER III.

### *Land and Farming.*

1. WE have seen that man passes through three stages in the use of land. He is first a hunter, then a shepherd, then a farmer. In each new stage he needs less land, and gets more out of it, than in the preceding. This lessening of the area he needs, and increase of food and clothing obtained, does not stop with his entrance upon farming. As he acquires more power through the increase of numbers and of intelligence, and through the association with his fellows thus made possible, he narrows still further the area of land he tills, and yet increases his crops.

2. Early farming is confined to the poorer soils, which are dry, thin and easily tilled. They need no drainage, and can be ploughed with a roughly shaped log, and harrowed with a bush. The crop will be a scanty one, perhaps seven or eight bushels of wheat to the acre ; but that is the best that is possible to a farming which is weak in its power to conquer nature.

Later farming comes down from the dry hilltops to the richer valleys below them. It finds in the creek and river "bottoms" the elements of fertility, which the circulation of water has carried down from the higher lands. It applies drainage to their wetter soils, and gets a far larger return for the labor expended.

It is a mistake therefore to assume that those who first settle a country will bring the best lands under tillage. We might as well assume that they will burn coal rather than wood, or travel by rail rather than on horseback. They

take the best they can make use of, and men pass from what is worse to what is better in the use of land.

3. Early farming is *extensive*. It spends a small capital on a great acreage of soil, and gets a small return. Thus in the Middle Ages, when England had a population of about two millions and a half, there was a great acreage of wheat sown, so that the people of the towns had to turn out to help to reap it. Also the students of the Universities, who were counted by tens of thousands at that time, had to go home to help. This is the origin of the summer vacation of schools and universities. The crop averaged about seven or eight bushels to the acre, and the whole food-supply was what we now would think enough for a million and a half of people. The yield of wheat in England is now more than thirty bushels an acre, and some of her farmers have raised sixty.

4. Later farming is *intensive*. It spends a large capital on a small acreage. As some one says, it leaves off thinking of the soil as a quarry, and begins to think of it as a piece of scientific apparatus. Instead of letting the land lie fallow one year in three, that nature may restore it after exhaustion, it supplies each year by manures what the last crop has taken. For this purpose it maintains a great stock of cattle, and takes from the barnyard what enriches the fields. It keeps these cattle under cover in winter, and thus saves the food which would be needed to keep them warm, and prevents their degenerating through exposure. It establishes a rotation of crops, and thus avoids drawing from the soil the same material every year. It keeps the wetter soils warm by drainage, and thus increases the crops. It uses tools and implements constructed on the strictest scientific principles, and thus saves the labor of men, and uses the toil of horses and oxen to the best advantage.

5. Early farming was poor because the land was held in common ownership by a large group of persons. Frequently no one was sure of having the same piece of land year after year, and therefore he had no motive to make permanent improvements. In all cases the tilled land became grazing land after a certain date in the autumn, and each farmer must have his work done by that day. Every year a third lay fallow and was grazed, in England and on the continent of Europe, whether the owner of each plot wished it or not. The methods of tillage were traditional, and much of the work was done in common, so that no improvements could be made until they were approved by the whole community. Little change for the better was possible until this common ownership was broken up.

Later farming gives room for each man to do his best with the land he has, whether he owns it or has leased it. It leaves him free to try which is the best time to sow and to reap, the best way to dig or plow and to reap, the best seeds or roots for each kind of soil. It throws him upon his own judgment, instead of subjecting him to the opinion of a community of men. It thus develops his manhood while making the best of the soil.

6. Farming is better done, as a rule, by men who own the soil than by those who have only leased it. A very lazy man, it is true, will work harder if he has to earn his rent than if he had only to get his living out of the soil. But the average farmer needs no such spur to industry; and it contributes to the Nation's welfare to have land owned by those who till it. Farmers who own their land are indisposed to favor violent changes in the State. They support its institutions or its interests against revolutionists and anarchists of all kinds. They have at stake their property in the land. They are rooted in the soil, and therefore conservative. For this reason all the ancient codes of law

avored the ownership of land by the majority of the people. The laws of Moses made each farm the perpetual endowment of the family to which it was assigned. It could not be sold away from the family; and if pledged for debt, it returned to the family at the year of Jubilee.

7. For this reason small farms are better than large, as the subdivision of the land increases the number of land-owners. Of course in the early settlement of any country the farms will be large at first. With the growth of population they should be growing constantly smaller, and at the same time the product of each small farm should be greater than was that of the larger. In eastern America many farmers are "land-poor" because they will not learn this. They have not the capital to till a hundred or two hundred acres, on which they have to pay higher taxes with every decade. If they were to sell off half, and spend the money on the rest, they would become prosperous.

8. The finest farming in the world is seen in the northern provinces of Belgium. Many farms are as small as seven or eight acres. The land is not naturally rich, but the labor of the people has made a garden of it. They spend twice as much on an acre as is done in England, and keep more cattle. They feed 1800 people to a square mile, and save money. Much of their success is due to the fact that they formerly were a manufacturing people, but their manufactures came to an end when the steam-engine superseded hand-labor. They had no coal-beds, and to transport coal in those days was costly. So they applied to farming the careful and business-like methods of the workshop. They economized their time well, wasted no material, left no corners in possession of weeds, and studied which were the best crops, the best implements, the best breeds of cattle. They watched the markets, especially of all the great cities within reach, to see what there was a demand

for. America and even England might take lessons from them.

9. The *value* of land, like that of anything else, is the measure of nature's resistance that we have overcome in getting what we need of her. It is thus the result of labor expended either on the piece of land itself, or upon land in its neighborhood. Apart from labor, land is merely *soil*, and has no value. Through labor it becomes farms and house-lots, and acquires value. There is no value in mere soil, however fertile, unless it has acquired value either through cultivation or through its situation. Nobody would give a dollar for a square mile of the Amazon valley, which is the most fertile soil in the world. No doubt it will yet become the most valuable through conquest of nature's forces by labor. At present an acre of New Hampshire, with the granite cropping out, is worth far more.

10. As value is the result of labor, those who buy or rent land are paying for the results of labor. They are not paying for what the soil was before labor was expended, but for the farm which human labor has produced from that raw material. A farm is like a ship. Nature gives us the materials out of which to make it, but it is labor which gives these their value in adapting them to human use. Now ships are constantly falling in value, because of the improvements in the ways of making them. No ship that was built twenty years ago would bring near what it cost, even after all allowance for wear has been made. So it is with farms, although here the changes are not so rapid. The improvement in machinery and in methods brings down the price of all that has been done in making them; and their owners cannot sell them for what they cost, but for what it would cost to replace them.

11. For the same reason, those who rent farms from their owners are able to obtain the use of them in return for the

payment of a smaller share of the crop than formerly. It is often true, indeed, that the amount of produce (or its equivalent in money) is larger than was paid formerly. But in most cases it will be found that the share of the harvest which the landlord takes in rent is diminished. The only exception is where a change in situation has taken place, through the rise of a better market for farm-produce close by the farm ; and even then the tenant is paying more only because there is a much larger value on which to pay. He is paying for value added to the land by labor on adjacent land.

12. That part of the value of a piece of land which is due to labor expended on itself is called the *earned increment*. It is represented by the clearing away of timber, fencing, unexhausted manures, drainage, crops, meadow-sward, lawn, houses, out-houses, and whatever else would not be on the land except through the labor of man and the toil of beasts. To this might fairly be added what the owner or tenant has done to make roads, build school-houses and churches, or to contribute to any object of general benefit in his neighborhood. All these add to the value of the land, and have been done by him as the holder of this particular piece of it.

13. The part of the value of a piece of land which is due to labor expended on land in its vicinity, we call the *unearned increment*. This of course is greatest where the population is most dense. Thus the owners of land in or near a great city may become rich simply by holding on until their property rises in price through the demand for building-lots. Away from the cities this kind of increase in value is not so striking. Yet whenever a railroad establishes a station at any point, the land near it rises at once and decidedly in value. So, in a less degree, does all the other land within reasonable reach of such a station. Most of the land which

has been taken up in homesteads in the West would have had no value if the railroad had not preceded the settlers, and had not given them lower rates for carrying their produce than are given to Eastern farmers. Even on these terms, such lands are far from cheap, although the settler pays for 160 acres merely the costs of survey, ranging from \$37 to \$46. The labor of breaking new soil, and the costliness of creating all social conveniences, are a high price in themselves.

NOTE.—The proposal to take in taxation all the unearned increment, on the principle that it is the creation of society and therefore belongs to society, will be discussed in the chapter on Taxation.

14. The comfort and success of the farmer, therefore, depend not only on what he does with his own land, but on what is done on the land in his neighborhood. The railroad may extend his neighborhood somewhat by carrying his wheat or corn or pork a thousand miles, at the rate it would charge for a hundred miles in the East. But under such conditions he can raise only the few crops which will bear a long transportation, and is thus debarred from having a proper rotation of crops. And it will not give him rates equally low on what he purchases at a distance, or what he gets in exchange for his crops. He thus suffers in both his farming and his profits by his distance from the market.

Formerly this mattered much less, as every farm was almost a self-supporting community. The shoes and clothing, the soap and candles, and many other conveniences were then made in the farm-house. It was not necessary to sell much, as very little was bought. The changes in our habits and tastes, and the great cheapening of what is produced by the factory system, has put an end to this. The farmer must find a market for about forty per cent

of his crop in order to purchase the real or supposed necessities of his existence. The "age of homespun" is departed, or lingers only in out-of-the-way corners of the country.

15. It is of great importance to the farmer, therefore, to have those who supply him with what he must buy, at work in his own neighborhood. If his farm is near by a large and busy population, which is not producing food, he has a steady market for a large variety of farm, garden, orchard and dairy produce. He can vary his crops from year to year, so as to avoid the rapid exhaustion of his land. He can keep many cows and horses, to the enrichment of his manure-heap, and can supplement it with all kinds of town refuse. He can distribute the risks of farming by growing a great variety, so that the weather which hurts one may suit another. While he who farms at a distance from his market can hardly help injuring the quality of his land, he who farms in the neighborhood of his market has constant and plentiful opportunity to improve it.

16. A whole community in which there is no employment but farming is in constant risk of famine. It sounds odd that people are in danger of starvation when they give all their energies to producing food; but experience proves this true. All the foreign countries which have had great famines in recent times, have been merely agricultural countries. Ireland, India, China, Persia, Asia Minor, Russia, northern Sweden are instances. At home we have had local famines in parts of Virginia and of West Virginia, and in Nebraska, for the very same reason. When a community "puts all its eggs into one basket," if the basket fall they are ruined. In India if the rains fail to come in the rainy season, it means death to myriads, perhaps to millions. When India was a manufacturing country, the greatest manufacturing country in the world indeed, she had no

famines except through the desolations of war. More than the population of any American State have died of hunger in India under the reign of Victoria, and in times of profound peace.

NOTE.—A government report on Indian famines, made in 1885, says: "At the root of much of the poverty of the people of India, and of the risks to which they are exposed in seasons of scarcity, lies the unfortunate circumstance that agriculture forms almost the sole support of the mass of the population; and no remedy for present evils can be complete which does not include the introduction of a diversity of occupation, through which the surplus of population may be drawn from agricultural pursuits and led to find means of subsistence in manufacturing or some such employment."

17. The history of man as a farmer is one of progress in the conquest of nature through the growth of association, which the increase of numbers and of intelligence permits. He passes from worse land and methods to better. From a decreasing acreage he obtains an increasing crop. But his progress requires the co-operation of other industries than his own, and the neighborhood of the artisan to give him a steady home market.

## CHAPTER IV.

### *Labor, Capital and Machinery.*

1. A POOR man, who was out of work, once asked a wealthy merchant for assistance or employment. Stephen Girard did not believe in giving money to those who would not work, but he told the man to go into his yard and carry a big pile of stones from one side of it to the other. The man did it, and came back to report that he was done. "Now carry them back again," said Mr. Girard. This the man refused to do, and Mr. Girard dismissed him.

Was the man right or wrong? He was right, because what Mr. Girard offered him was not the labor he wanted, and it was beneath his dignity as a man. *Labor* is human effort directed to some useful purpose by human intelligence. A horse may toil, and a machine may work, but only a man can labor. To ask of a man toil which has no regard for use or service is to insult him. The "dignity of labor" lies in usefulness.

2. All labor requires the co operation of *capital* if it is to produce anything. Capital is the result of past labor employed to carry on present labor. Every man is a capitalist, in this sense. All the knowledge and experience he possesses, all the tools he owns, all the special expertness he acquires in doing any sort of work, and even all the vigor he derives from the food he has eaten, are forms of capital. Even to dig clams on the seashore requires capital. You must have (1) the knowledge that a clam is hidden under that little airhole in the sand; (2) a clam-shell at the least to lay him bare; (3) the alertness of eye and hand

needed to keep him from escaping; and (4) the strength from food which is needed to keep you up to the work. So of berry-picking in the woods, or any other simple employment: they all require capital, the results of past labor, to carry on present labor with success.

3. Equally true is it that capital requires the help of labor to produce anything. The wealthy man may live indeed on what he has accumulated until it is exhausted; but if he wishes to keep up his stock or add to it, he must do this either by his own labor or that of others. There is no increase without labor. Even the forces of nature and the toil of animals cannot be employed without it.

The laborer and the capitalist therefore are partners in every undertaking. All they produce is a joint-product, from which labor draws wages and capital draws profit.

4. In the first stage of the history of labor, each worker owned all the capital he made use of. There were no two classes called laborers and capitalists. The rude tools, the imperfect intelligence and the poor skill of the barbarian workman were his own, and no better were to be had. He was his own master, and he did not produce much, because he had so many things to do that he never learned to do any of them very well.

5. In the next stage we find masters and workmen as separate classes, yet working side by side. The masters are very many, and none of them has much capital. Each has a *workshop*, and employs his *journeymen* and his *apprentices* at hard labor mostly, and works beside them himself. Every journeyman expects to become a master, as every apprentice knows he will be a journeyman as soon as he is old enough. The laws will not allow any one to practice any trade, or open and own a workshop, unless he has begun at the beginning, and has worked his way up. Each trade has its *guild*, in which both masters and work-

men are members, to see that this and other rules are enforced.

6. In the third stage the *steam-engine* and the *machinery* it keeps going have come to share the work. A much larger capital is needed to start a *factory* than was required for the old workshop. The masters (or capitalists) who employ labor are much fewer relatively. Only a few workmen can expect to become masters themselves. The two classes are therefore much farther apart; and, as the employer cannot know all his workmen, but has to deal with them through his *foreman*, the chances of misunderstanding and strife are much greater. There is, indeed, more liberty of action. The guild has disappeared, and every man is free to work at any business at which any one will employ him. But the security also of the guild has disappeared, along with its rules to fix the hours of labor, the rate of wages and so forth.

7. To take the place of the guild, the *Trade's Union* arose. It combined great bodies of the working people to exact better terms than the single workman could secure, as to wages, hours of labor, and other matters. To make this sure, they refused to work with those who had not joined the Union, that they might drive these to act with the rest. In some cases they enforced their demands by *strikes*, that is, by stopping work until the employers agreed to what they asked. In some cases these strikes were attended with violence and cruelty toward workmen who would not unite in them, or who came from a distance to take the places which the strikers had left.

8. The great question in dispute between the capitalist and the laborer is the division of the joint-product, so that the former shall get a fair *profit* and the latter fair *wages*. The law indeed treats the joint-product as the sole property of the capitalist, and recognizes no claim on the part of the laborer except on the ground of a previous agree-

ment, expressed or understood. But the laborer has a moral right to a fair division, and therefore to fair terms in making his agreement as to the rate of his wages. And it is the interest as well as the duty of his employer to see that he gets fair wages. Ill-paid labor is never really cheap labor, just as slave labor is worth less than that of free workers. Wages which make workmen comfortable and contented, which give them hopefulness and cheerfulness, are those which get the best work out of them. It is profitable as well as right for the employer to attach his workmen to himself by remembering that they are human beings, and by doing the best he can for them in paying them.

9. Some economists, indeed, say it is not wise to pay the workman more than will supply him with the necessities of life, or what he thinks to be such. That rate of wages, they think, will lay just check enough on their marrying to keep the number of workmen always up to the needs of the labor-market, and not let it rise above that. They predict that higher wages will cause such a growth of the laboring class as will pull down wages lower than they were before.

This view of the matter amounts to saying that the workingman is a sort of domestic animal, whose price is fixed by supply and demand without his having any will in the matter. It was refuted by the workingmen themselves, when they refused to work at such wages as this theory suggested, and compelled their employers to pay more. If the theory had been true, this success would have been followed by a great fall in wages in the next generation. But the fall did not come, and the masters say they would not think of proposing to go back to the old rate. Thus the workingman showed he was not a domestic animal, but a person, with a will of his own.

10. In dividing the joint-product between the two classes which have produced it, we must take other matters besides

profits and wages into the account. (1) The cost of the *raw material*, and of fuel and water, or of water-power, must be deducted. (2) The *wear and tear* of building and machinery must be deducted. (3) *Interest* on the capital at ordinary market rates must be deducted. The capitalist might as well have lent it, as taken the risk of putting it into a factory or a mill.

After deducting these three we may count what is left as to be divided between wages and profits. And here we must remember that the employer himself is entitled to "wages of superintendence," as well as to profit. Profit is simply the payment for the risk he has taken in putting his money into the business. But besides that, he has put at its service his practical intelligence, his business experience, his enterprise and his time. For these he is as much entitled to compensation as is any workman for his labor, or any foreman for his oversight. Very often, indeed, these wages of superintendence are his chief reward, as he may not own the capital, and may have to pay both interest and profit to the actual capitalist.

11. In dividing what is left between wages and capital, we find there is a lower line below which wages cannot fall and a higher line above which they cannot rise. (1) They cannot go so low that they will not supply the actual needs of the workingman. He may as well starve in idleness as starve at work. (2) They cannot go so high as to leave no profit to the capitalist. He may, as well stop his factory as go on without a profit.

These two lines sometimes come very close together. In bad times it often happens that wages which will just support the workingman, leave very little profit on capital, or none at all. But in good times the two lines lie apart, and the great problem is to draw a line of division between them. Where it shall be drawn is not fixed by any natural law, but by agreement.

12. In making this agreement some things favor the workman, and some the capitalist. Thus in a free country, where public opinion demands that the workingman shall live in decency and comfort, this opinion helps to put wages up. In another country public opinion may be on the side of capital, and help to keep them down.

13. Experience shows that in drawing this line it makes a great difference whether labor is so organized that workmen make their agreement in a body, or each man bargains for himself. In the latter case the capitalist generally can make his own terms, as he can better afford to wait. Now "labor is the most perishable of commodities." It is half gone by noon, while the workman has been trying to sell his day's labor. He cannot wait unless he is certain of getting more by waiting, as the single workingman never is. Even the associated body of workmen may make heavy losses in waiting for better terms in a strike. But they always expect to recoup these losses by higher wages, and this they frequently do. Even when they lose their time and trouble in an unsuccessful strike, they may afterwards recover what they have lost by the mere threat to strike a second time.

14. The natural tendency is for wages to rise higher, while profits remain at much the same figure. This is because, as was shown in the second chapter, the value of things falls steadily with improvements in the methods of producing them. All the results of past labor are thus declining in value, and command lower prices than when first produced. Price is determined not by the cost of producing, but by the cost of reproducing or of replacing. As soon as any improvement has been made, this latter cost falls below the former.

Now capital is merely that part of the products of past labor which is used in present labor. It also can be repro-

duced more easily than it was produced. Its value, therefore, constantly falls, and its owner will get less for the use of it than he did. In the great partnership of capital and labor, it is therefore the laborer who makes better and better terms for himself. While part of the improvement goes to cheapen the product, another part goes to raise the wages of the producer, while the rate of profit remains much the same as before. Thus the workman's wages increase both in amount and in purchasing power. Between 1860 and 1880 the annual wages of skilled workmen in America rose from \$460 to \$720, while the things they needed to buy fell at rates varying from 26 to 46 per cent. In effect a workman could buy twice as much with his wages in 1880 as in 1860, while the rate of profit for capital had not risen, and that of interest on money had fallen.

15. Improvements in general, therefore, and machinery in particular, tend to improve the lot of the laborer. Nor does it generally, in the long run, reduce the amount of employment. By cheapening the product, the market for it is enlarged, until it employs more people and at better wages than before. When the Pennsylvania Railroad began to penetrate the Alleghanies, it was said that great harm would be done to the wagoners, who had carried on the commerce of that hill-country. But this single railroad gives far more employment to wagoners alone than the whole trade of Pennsylvania did before it was constructed. So the making of pins by machinery employs far more people than it did in former times, when as the school-book told us, "it took ten men to make a pin."

16. It is true that when changes are sudden and great, there are distress and suffering for a time among the working people these have affected. Thus the introduction of the power-loom in the early years of the nineteenth century threw the old hand-loom weavers out of work, and caused

great distress. But more people now find work in making the materials of our clothes than in that time ; and they are better paid, while the supply of clothes to each of us is greater.

17. In a few cases there can be no proportional increase in consumption, and therefore improvement does reduce the amount of employment. Thus the *reaping machine* has made it possible to get the harvest cut with far less labor than when the *hand-sickle* or even the *cradle* was employed. And while it has made it possible for more people to get all the bread they want, it has not enabled the rest of us to eat more bread than we did. In this case the laboring classes profit chiefly as consumers, the cost of food being reduced. Yet the cheapening of flour has opened some new uses for it and extended others, as in paste to make paper boxes.

18. Attending to machinery such as looms in a factory is very monotonous work, more monotonous indeed than any work was before the general introduction of machinery. It also is the least educative work. In farm work and in housework the mind is kept active by the frequent change of interest. In the factory the mind stagnates, unless the workman or workwoman has time for reading and for study after hours.

19. Formerly the factories were run from twelve to fourteen hours every day, and even boys and girls had to work for those long hours. Such a life was dreadful for young people ; and one of those who endured it as a boy, tells of his thrusting his hand in among the cog-wheels of the machinery in order to secure a holiday. He declares that the pain of the hurt was as nothing to the joy of his release for a time from his work.

20. Of late our States have stopped this by limiting the hours of labor in mines and factories to ten a day for grown men, and a still smaller number for women and children.

Our workingmen generally think the law should go further, and should limit the working-day to eight hours, as has been done in some of the Australian colonies. This probably will be effected, either by law, as in the reduction to ten hours, or by a general refusal of the working classes to work longer each day, as they did in Australia. Nor need the change cause any general reduction of wages or diminution of profits. Part at least of the loss of time will be made up in many trades by the greater efficiency of the workman. In other cases there may be a slight rise in the price of the product, or at least no such reduction in price as otherwise would have followed improvement in methods, until the change is well over.

21. More radical changes are demanded by some people, who denounce the wages-system itself as a bad one. The *Socialists* declare that it exposes the workman to excessive "social risk." He may be thrown out of employment, or his wages forced down to near the starvation level by hard times. He may be unfitted to work by illness or old age; or he may die and leave his wife and young children dependent on charity. To correct this evil they demand that the State shall take possession of the instruments of production, shall become the only employers of labor, and shall add the profits of production to wages.

22. To avert this social revolution several improvements upon the present system have been suggested. The first is the *compulsory insurance* of workmen. In Germany the working people are divided by law into two classes, viz., those who do, and those who do not, receive more than a specified rate of wages. Those who do are compelled to pay regularly a small contribution to a public fund. The employers of those who do not are compelled to make this payment for them. To these contributions the State makes a considerable addition. Out of this fund support is furnished

to those who cannot obtain employment, to those who are disabled from work, and to the widows and orphans of workmen who have died. Something like this has been established by several of our great railroad companies for the benefit of their workmen of all grades.

23. As business is usually managed, the workingmen get no share in the profits, that is, no compensation for the risk they take in giving their time to learning one particular kind of work, and in taking their chances of finding employment in it. In some industries, however, there is a *sliding-scale*, by which wages are adjusted to the price of the article the men are making. Thus when nails rise in price, the wages of the nail-makers rise also, and fall when the price falls. Such sliding-scales generally have an upper and a lower limit on them, and wages cannot rise above the upper, or fall below the lower, whatever be the rise or fall of prices. This seems quite fair to the workingmen, and they generally are willing to have the upper line drawn pretty low, if at the same time the lower line is put pretty high. Yet these lines are really bad arrangements for the workman. When prices fall, the workman is safe only to the point where employment ceases, and then he finds no safeguard against getting no wages at all. In good times, on the other hand, he does not profit fully by high prices.

24. A better arrangement is *profit-sharing*. This sets apart a share of the profits of the establishment for division among the workingmen. Sometimes this is done by giving each a share of stock. In others it is agreed that all the profits above a certain percentage shall be divided either partly or entirely among the workmen. This naturally tends to give them a more direct interest in their work, to secure a feeling among them which discourages shirking and waste, and to bring them within the number of those who receive profit in return for their risk.

Profit-sharing has been found to fail, however, when hard times have lasted year after year, and there have been no profits to divide. In such cases the workman is too apt to suspect that the books are not fairly kept, and that there would be a dividend for him if they were.

25. Much less practicable is the plan called *co-operation*, in which the workmen become their own employers, and own the factories themselves. It is found to be not so hard for them to acquire the ownership by careful and prolonged saving, as it is to manage it wisely when they have got it. They cannot secure the business experience, and they fear to give the scope to enterprise, which are necessary to success. Co-operation of this kind has had but few successes, and those mostly in such businesses as the making of flour-barrels, where not much judgment has to be exercised, and the demand is steady. The workingman in fact cannot get on without the class who direct the big operations of industry.

26. Labor and capital are partners in every act of production. The workshop succeeds the isolated laborer, and the factory the workshop, to the general benefit; but the change of social relations in the last case leads to friction. There is no natural law for the division of the joint-product between wages and profits, and the workman has increased his share by combination. There is a law of distribution by which wages tend to rise, while profits do not. The improvements which effect this sometimes inflict temporary hardship on the working classes, but permanently benefit them. As these make labor more monotonous and less educative, the reduction of the length of the working day is reasonable. Not so reasonable is the proposal to abolish the capitalist class, whether made by Socialists or Co-operators; but Compulsory Insurance of workingmen and Profit-sharing would be improvements of the wages system.

## CHAPTER V.

### *Money and its Uses.*

1. WHEN every separate group or family was self-supporting, there were few or no exchanges between such groups. In the course of time those groups which were more favorably situated than others—as being, for instance, on the seashore, where they had access to supplies of salt and of fish—began to trade with those who had less or none of these. At first this trade was simply an exchange or barter of one commodity for another. But as trade developed, cases occurred in which two groups, or later two persons, had each something to sell, but did not either of them want what the other had. This led to an agreement upon some third article which everybody wanted, and which therefore could be used to make a purchase from any one. At first cattle filled this place; then the skins of cattle, or even those of wild beasts (peltries). This was the beginning of money.

2. As primitive man loves to adorn himself, the metals which are best suited to this became objects of universal desire at a very early period. They were Silver and Gold; and as they represented a large value in a small bulk, they were more convenient than any other article that had been used. At first they were paid out by weight, as Abraham did when he bought the cave of Macpelah from the Hittites of Hebron. This was formerly the oldest purchase and payment of which we had any record; but the explorations at Babylon have supplied still older.

3. The Egyptians seem to have made the use of Silver easier by casting the quantity of it which represented the

value of an ox or a sheep into the shape of each animal. But the coinage of money was not practiced until the sixth century before Christ, when Croesus, the famous King of Lydia, made a beginning. This example was followed by Darius, King of Persia, and the golden *daric* of the Persians was long a standard coin throughout the East. The Greeks and then the Romans adopted coinage; and as the Romans had their work done in the temple of Juno Moneta, or the Adviser, our words *mint* and *money* are derived from that title of the Roman goddess.

4. In its first use money is simply the instrument of *exchange*. It made it easier to buy and to sell by supplying an article which every seller would take. This naturally led people to watch closely the amount of Silver or of Gold which was usually paid for any article, so that a man might not trade to his own loss. Thus money became a *measure of value*; and people came to a clearer notion of what each kind of article was worth, than before the use of money became general.

5. Some writers speak of money as a *standard of value*, but this term cannot be strictly applied to it. A standard is a measure which does not change with the lapse of time. Thus in the reign of Henry VII the English established their standard of linear measure, taking the length of the king's foot as the unit. Four centuries have passed by since that was done, but the foot-measure is exactly the same still. If we read that in the reign of Queen Elizabeth or in that of Queen Anne, a man was over six feet high, we know that this meant exactly what it means in the reign of Queen Victoria. But this is not true of any kind of money that ever existed. As we have seen, all things fall in value through improvements in the means used to obtain them, and Silver and Gold are no exceptions. In the three centuries between the discovery of America and the French

Revolution, Gold and Silver fell to one-twelfth of their former value. If the English foot-measure had shrunk at the same time until it was but one inch long, that would have been a similar change.

6. Silver and Gold are taken as measures of value because it is supposed that they change less irregularly than other commodities, and that they change at the same rate as others. There is no substance or article in the world which does not change in its value, but as some substance must be made the standard of deferred payments, the civilized world has hit upon these two. They are scarce, but not too scarce for their purpose.

7. With the change which has come over industry through the accumulation of capital and the division of labor, money has come to serve another use than making exchanges easy. It serves not only to exchange the articles which have been made, but it helps to have them made in the first place. It is the *instrument of association*. While it is only one of the many things which constitute capital, it is one of the most essential. Without it the capitalist could not enlist his small army of workmen, get them drilled in the methods of the work, and organize them so that each shall be in his own place, doing his own work. It is money which supplies the industrial bond of the producing as well as the trading class; and anything which tends to make it scarce or dear, tends to restrict production by making it more costly than it ought to be.

The notion that money is merely an instrument of exchange, or rather the fact that it was nothing more in early times, explains the objection to lending it out at interest. It was said that money is "barren," and that they who took back more than they lent were making a gain without rendering any corresponding service to the creditor. What they took was the product solely of his labor, since the

money lent had produced nothing. And to the product of his labor he alone was entitled. Long after the state had ceased to fix a price for any other commodity, the law tried to limit the amount which might be asked for the loan of money, as indeed the laws of some of our States do still.

8. To understand how great a part money plays in both exchange and production, let us suppose that it were all to vanish out of a great city in a single night, and that when the people awoke they found they had neither coin nor paper notes of any sort. Their other property, indeed, would be left; some would still be richer and some poorer. But until they devised some substitute for the money which had vanished, they could make far less use of their property than before. Not only would buying and selling cease, but the whole machinery of production would be stopped. Factory-hands would cease to work, if they saw no way of being paid for the work. No one could get his boots blacked, or his face shaved, or get a ride in a street-car, for want of money. The whole industrial system would go to pieces for a time, and we should be carried back to the barbarous condition, in which each family had to do everything for itself.

9. What the entire loss of money would thus do by way of hurting a community, would be done in part by any serious reduction of the supply of money. When money grows scarce, the producing classes suffer. They must pay at higher rates for the use of capital, and they may be obliged to sell off their products at a loss to pay debts which fall due. By such a state of things only the money-lenders and speculators make a profit, while the money-borrowers and money-users make great losses.

10. This is denied by some writers, who think of money as an instrument of exchange, and do not see that it is also the instrument of association, and therefore of production.

They say if a country gets more money than it had, the only effect is to put up prices ; and if it lose a part of its supply of money, the only effect will be to lower prices. This lowering of prices, they say, will lead people to bring Silver and Gold from other countries to buy at these lower rates, and thus the money will come back again. So, they say, all things find their level, and the distribution of money all over the world tends to become equal.

11. This theory of money and prices grows out of a narrow notion of what money is, and it does not fit the facts. It is not in the countries where money is scarce that prices are low, but the reverse. In countries where there is little money, it is only labor that is cheap. In Thibet, for instance, a shilling will buy more labor than in England, but less clothing or hardware. So the shilling drifts from Thibet to England. Money goes to where money is, because the country which has plenty of money can produce most cheaply. "To him that hath shall be given : from him that hath not shall be taken away that which he seemeth to have."

12. Money being itself a chief instrument in production, it cannot be wise for us to exchange any that we can use for the products of other countries. A Belgian writer (Prof. Laveleye) puts the case this way. Suppose that a number of hunters are on their way to the Rocky Mountains for six weeks' sport. They meet a returning party, who offer to take the guns and ammunition of the outgoing hunters, and to give them in exchange their full value in game. Would the exchange be a wise one? Manifestly not, as they would be trading irreplaceable power for the products of power. If the offer had been made on the streets of St. Louis or of Omaha, where the game could be sold and fresh guns and ammunition bought, the case would be different. But at the foot of the Rocky Mountains the guns would not be replaceable in this way, and the exchange would be unwise.

13. Now Silver and Gold as money are like these irreplaceable guns. We cannot manufacture coin at our pleasure, and in any quantity we need. For Gold especially the whole civilized world is fighting, each country wishing to get all it can, and to keep all it has got. To exchange these metals for dry goods or hardwares is ordinarily a very bad bargain. It is exchanging industrial power for the products of power.

14. Let us suppose that the rolling stock on our railroads were not replaceable at pleasure, — that we could add to it each year a limited number of freight and passenger cars. In that case it would be foolish for us to trade off many of our freight cars for English cottons or French silks, since by so doing we would place a restriction on the movement of freight throughout the whole country. And coins are little wheels on which roll the whole business of the Nation, whether it be transportation or exchanges or production.

15. It is true that a country may have more Silver and Gold than it has a use for, and that it may export these in exchange for any other commodity without incurring loss. Australia, for instance, has produced far more Gold than her people could use. Mexico and Peru formerly produced a great surplus of Silver in the same way. The countries which produce neither of these metals have been benefited by getting what the producing country had no use for.

16. It is also true that a country may get more Gold or Silver than it has any proper use for, or may get it too suddenly, and thus get more harm than good from it. Spain was the country of Europe into which Silver and Gold formerly flowed from the new world. But Spain got little benefit from them. Her people were not much disposed to work. Where any were, they found themselves hindered by the heavy duties on goods passing from one province to another, and by the Moorish tax called *alcala* which the

Christian kings continued to levy on every sale. So the money left Spain for France, Holland and England, who made better use of it, and thus became wealthy countries, not through the money itself, but through the industries it made possible.

17. In our own time Germany exacted \$1,000,000,000 in Gold from France as a war indemnity in 1871. This was far more money than the Germans could use profitably, and so the country got harm from it. It gave an opportunity for all sorts of wild undertakings, many of them quite dishonest in their management, and afterwards caused much distress through these failing. But if Germany had added that amount to her money supply at the rate of \$25,000,000 a year for forty years, she would have got no harm from it, but much good.

18. When the increase of money, whether coin or paper or credit, is more than a country can find use for in sound business, there is what is called *inflation*. One sure sign of this is the growth of mushroom enterprises, whose failure is certain to bring disaster. But up to the farthest point at which a country can absorb the increase of money in safe and profitable business, it will be benefited by the increase. For the same reason it will be injured by the loss of money which it could have employed in business of the right kind.

19. Money is an advance upon barter. It is the instrument of exchange; a measure of values, but not a standard of value; and above all, the instrument of association for production. The more money a country has, up to the limit of inflation, the greater its industrial power.

## CHAPTER VI.

### *Gold and Silver.*

1. THE use of Gold and Silver as money, it has been shown, grew out of their use for ornament. They also have qualities which fit them for use as coin. When slightly alloyed with other metals, they easily receive and firmly retain any impression. They do not rust easily or even lose their brightness, and they are not easily abraded or worn away by use. Their scarcity makes a small weight and bulk of them to stand for a considerable value.

2. Yet they have their drawbacks also. A large sum, even in Gold, is a heavy weight. They do abrade to an extent which soon makes Gold coin light of weight, and therefore not current. It is found that if 1000 new guineas are shipped from London to Edinburgh, eight will be light of weight when they arrive. For this reason the thrifty Scotch people prefer paper money; and in our own country Gold and Silver certificates are used instead of the coin itself.

3. In a few countries and in very early times Gold was worth no more than Silver, or even worth less. When commerce was well established between those countries and the rest of the known world, this ceased. The fact that Silver is more plentiful throughout the world than Gold is, was indicated in its greater cheapness. In Roman times the ratio of value of Gold and Silver was 1 : 11.91. At the beginning of the Christian era the amount of both in circulation in the Roman Empire was about \$1,800,000,000.

During the Middle Ages the stock dwindled, partly by exportation to China and India, and partly through loss by

fire, shipwreck, forgotten hoards and burials, until, at the discovery of America, not one-eleventh of it was left. An effect of this loss was the general restriction of industrial enterprise, causing the deep poverty of nearly all Europe. Flanders (northern Belgium) was the only really prosperous country, and that because it attracted the money of the rest of Europe by its manufactures. Venice came next, partly through its drawing on the countries along the Mediterranean by its trade, and partly by its finding a substitute for coin in the notes drawn on its bank.

4. The discovery of America changed the face of Europe, through the inflow of Silver and Gold from the Spanish colonies. At that time the ratio of values was 1:11.3. As the supply of Silver was greater than that of Gold, this ratio changed in three hundred years to 1:15. Far greater than this change, however, was the fall in the values of both, which in the same time (1492-1792) was to one-twelfth of their former value.

This fall was chiefly in the earlier part of the period. By 1640 it had almost ceased, and although the supply continued to increase, until it was thirty times as great in 1792 as it had been in 1492, money fell in value no faster than did commodities generally. This was because the new growth of trade and manufactures, and the improvement of farming, which the increase of money had made possible, now found a use for all the Gold and Silver that was to be had. The era of inflation of prices was over.

5. During this long period every country in the world admitted Gold and Silver equally to free coinage in their mints, and made both kinds of coin equally available to pay debts to any amount. So did the United States, when it established an American coinage in 1792. The law made the Silver dollar, containing 371.25 grains of pure Silver, the unit of value. This figure was reached by comparing a

number of Spanish Silver dollars, and taking their average weight. The ratio of value was also fixed at 1:15. It was found, however, that this ratio differed from that accepted in Europe, and that it worked to keep Gold out of our currency. So in 1834 it was changed to 1:15.9, and at this it remained until 1873. The change was not effected by making the Silver dollar heavier, but by diminishing the number of grains in the Gold dollar.

6. In the meantime England had adopted a new policy. After a long suspension of the specie payment during the war with France, she resumed the use of coin in 1816, but of Gold coin only as legal tender for large debts. Her mint was closed to Silver, except so far as the government chose to coin it in small change, and at a profit to itself. Debts of more than thirty shillings (\$7.50) could be paid only in Gold, and the banks were required to keep Gold for the redemption of their notes. Thus the United Kingdom became a Gold-Monometallist country, and still is so. But many years passed before any other country followed her example.

7. In 1810 and the years which followed, the Spanish colonies of America began to declare their independence. This at once stopped the inflow of the precious metals into Europe. Up to 1840 there was no considerable addition to the stock of coin in Europe and the United States. These years were a time of scantiness of money, restriction of business enterprise, and suffering among the working classes, as before America was discovered.

The tide turned in 1840 when large Gold mines were opened in the Ural Mountains in eastern Russia. In 1848 came the great Gold discoveries in California, and in 1854 those in Australia. Ever since there has been a steady inflow of Gold from all these Gold-producing countries to the great centres of business and of production, to the general benefit.

8. That this Gold was much needed was shown by its not falling in value more than did commodities generally. Its purchasing power was quite steady. At the same time there was a great revival of all kinds of business, and the common people began to get better wages, and to live more comfortably. Yet there was an alarm as to its possible effects, and a proposal was made in France, and taken up in England, to *demonetize* Gold, that is, to turn it out of the currency and use Silver alone. It was well that few people in either country heeded the people who talked in this way.

9. Between 1840 and 1870 there were \$12 worth of Gold for every \$5 worth of Silver added to the world's supply of the two metals. Yet there was almost no change in their ratio of value, which in 1840 was 1:15.62 and in 1870 was 1:15.57. The great supply of Gold had raised the value of Silver by but a thirtieth of one per cent. The relative quantity of Silver in the world was declining. In 1848 there were about 31 pounds of Silver to each pound of Gold; by 1870, 19 pounds of Silver to one of Gold.

The reason for the steadiness of the ratio was found in the fact that all the mints of the world, except that of England, were open equally to both metals. The unlimited demand thus created for both equally made the inequality of the supply a matter of no importance.

10. Since 1870 a great change has taken place and one without a parallel in the history of Money. The mints of Europe, America and India have been closed to the coinage of Silver, except for change. Silver has fallen as compared with Gold until the ratio of value is about 1:32. Goldmonometallism has become the practice of both Europe and the United States.

Why has Silver thus fallen in value? Is it because the demand has been diminished, or the supply has been excessive? Can it be restored to its old place by restoring the

demand? Or is its fall in value permanent, and likely to go on, so that Silver must be given up by the civilized Nations as money? On the answer to these questions people are divided into Monometallists and Bimetallists.

11. The Monometallists trace the fall to the great increase in the supply. Up to 1870 the annual production of Silver was between \$40,000,000 and \$45,000,000 worth a year. In 1870 it rose to \$75,000,000 a year, being still below the value of the added Gold, and so continued for five years. In these five years, however, great alarm began to be felt, as formerly about Gold, and this alarm was deepened by the exaggerated reports made as to the possible output of our new mines in Nevada.

Germany, which in 1871 exacted a war indemnity of \$1,000,000,000 from France, required this to be paid in Gold. The Germans used this Gold to retire the most of their Silver money and put out Gold coin instead. They then tried to sell off their Silver, which amounted to a two years' supply from all the mines, thus farther forcing down the value. This example was then followed by the Scandinavian nations and by Holland, while France and the countries which agreed with her in trying to uphold the credit of Silver, had to close their mints to it.

12. Our own country, which is now the chief producer of Silver, in 1873 changed the unit of value from the Silver to the Gold dollar, and stopped the coinage of the former by law. Since that time two ineffectual attempts have been made to restore the credit of Silver, first by a limited coinage, at the ratio 1 : 16, and then by large purchases of the metal and the issue of certificates on the credit of this silver bullion. But neither of these measures prevented its farther decline, and in 1893 we ceased either to buy or to coin Silver.

13. The result of turning Silver out of the mints of the civilized world has been to create an excessive demand for

Gold, which could not but raise the value of that metal. When we say that Silver is now sold at the ratio 1 : 32, and was sold at 1 : 16, twenty-five years ago, this is not the same as saying that Silver is worth but half so much as it was in 1870. It means not only that Silver has been forced down by an artificial reduction of the demand for it, but that Gold has been forced up by an equally artificial increase of the demand for it. And with this forced rise in the value of Gold, there has been an apparent fall in the value of everything else as measured by Gold. Thus wheat in 1895 is much scarcer and more in demand than it was in 1870, but its price in Gold is not half so high. The same is true of cotton and many other commodities. Now if there were no such thing as debt, and if the prices which the growers of wheat and cotton have to pay for what they buy fell as quickly and as much, this would not matter much. But debt is very general among these classes, and they have to give more than twice as much wheat or cotton to pay the interest on a debt now, as they would have had to give in 1870 to pay the interest on the same debt.

14. As this is true of individual debtors in relation to their creditors, so it is true equally of Nations which are in debt. Creditor Nations generally take the interest on their foreign investments in food or raw materials. Thus India pays England in jute, indigo and wheat; Egypt pays in cotton; we pay in grain, cotton and meats. Under the operation of the single Gold standard all these countries have to hand over larger and larger quantities of such products to meet obligations to their foreign creditors.

Since 1870 we have paid off more than half of the great debt incurred in the War for the Union. But we could have paid off the whole of it in 1870 by the sale of fewer bales of cotton, or bushels of wheat, or carcasses of pork, or tons of iron, than we now would have to sell to pay off what remains.

15. The Monometallist defends the single Gold standard on two other grounds. The first is that a double standard is impossible, as the supply of one metal is sure to vary from that of the other, and thus to force variation in the ratio of their values. We have seen, however, that in 1840–1870, with a very great variation in the supply of the two metals, there was a very great steadiness in the ratio of value. For all practical purposes it remained the same. The amount of variation was what mathematicians call a negligible quantity. So between 1687 and 1873, under a general policy of Bimetallism, the variation was but from 1 : 14.94 to 1 : 15.92 at these two dates. The farthest variations in intermediate years was 1 : 14.14 in 1760, and 1 : 16.25 in 1813, both of them due to temporary causes. It was only with the demonetization of Silver that the variation became serious.

16. It is also argued that since Silver in the markets of the world sells at the ratio 1 : 32, if we should attempt to coin it at 1 : 16 we would drive out all our Gold coinage. For whenever a country undervalues one metal by overvaluing the other, the effect always has been to force the export of that which is undervalued. If the law make it less valuable at home, it will be sent to where it is more valuable.

This is true, as experience has shown, and the sudden loss of \$400,000,000 in Gold might prove very disastrous. We therefore either must wait until Europe is ready to unite with us in remonetizing Silver, or we must adopt some course which will compel her to follow our example.

17. By general consent of mankind Gold and Silver are used for coined money, and are well fitted for this use. The supply from America, coming after a prolonged dwindling of the stock in Europe during the Middle Ages, effected untold good, as did the renewed supply from California and elsewhere since 1840. Up to 1873 the ratio of

the two values changed so little as to make no difficulty in their use as money. The fall in Silver since 1870 has been due to demonetizing legislation. It is our interest to have Silver remonetized, but we must avoid any step which would lead to the withdrawal and export of our Gold coinage.

## CHAPTER VII.

### *Banking, Paper Money and Credit.*

1. THUS far we have been speaking only of money which has intrinsic value, that is, which is made of a quantity of precious metal whose value is equal to that which the coin passes for. No money contains quite so much Gold or Silver as this. To prevent coins from being melted down by those who need Gold or Silver for other purposes, they are made to contain slightly less of either metal than they would purchase. And in the case of token or change money, being coins of less value than a dollar, the difference is very considerable. But coin is money which passes for little more than the worth of the metal it is made of.

2. Besides this we have *representative money* of several kinds. The simplest form that we often see is the Silver Certificate. As it is not convenient to carry about large quantities of silver dollars, the government stores them in its vaults and issues instead pieces of silk paper, of the size and shape of bank-notes, but differently printed and colored. Each of these is an order on the Treasury for a specified number of silver dollars. In this way the great quantities of silver dollars we read of as stored away in the Treasury vaults at Washington, are really in use as money, and are circulating by their representatives. Whoever has a five-dollar silver certificate, owns five of those dollars, and can get them by giving it up. And as Gold also is inconvenient for use in large sums, besides being liable to lose weight by use, gold certificates for large amounts are issued, and used especially by the bankers.

This plan of using coin certificates first came into use in Hamburg, for convenience of reducing to one standard the many kinds of silver coin which came into that trading city. It was adopted by the Swedes, when their currency was little else than copper, and a merchant would have had to take a dray to carry his money when he went round to collect or pay his debts.

3. Another form of representative money is the Treasury note, called in America the *greenback*.

Nations very generally are in debt, and it is convenient for them to have part of their debt held in a shape which requires them to pay no interest on it. It is in this shape that some four hundred millions of our own debt is held by our own people, at a saving of some \$16,000,000 a year of interest to the Nation. But these Treasury notes are orders on the Treasury for "lawful coin of the United States" ever since the Treasury "*resumed specie payments*" in 1879. Before that, from the time of their issue during the war, they were not convertible into any kind of coin, but derived what currency they had from confidence that the government would redeem them at some date. It was just the same with the Continental money of the War of Independence. The Continental notes were the Treasury notes of that day.

4. The chief drawback to this kind of money is that its value depends on the degree of confidence which the government enjoys at the time. It is almost always issued when the country is at war, and needs to borrow because its revenue will not pay its war expenses. But that is just the time when the country's credit, even with its own people, is at the lowest rate, as nobody can foresee how the war will end. Thus in the War for Independence, it seemed very doubtful for a time whether or not the colonies would overthrow the English armies, and the Continental notes fell so much that the pay of an officer in the American army would hardly buy

oats for his horse. As the general government had no revenue except what the States chose to give it, even the return of peace did not restore the credit of this money. It was only after the adoption of the Constitution that it was possible to redeem the Continental notes at their full value.

5. The Treasury notes issued during the War for the Union did not pass at their nominal value in Gold and Silver for the same reason. However much the people might hope for the final reunion of all the States, they could not be sure of it. So the purchasing power of the greenbacks rose and fell as events seemed to favor the cause of the Union, or the reverse; but they never rose to the value of coin. At the same time they were accepted in subscription to interest-bearing bonds, with the purpose of keeping up their value. The effect of this was that the Nation got only about fifty-six cents to the dollar for its bonds, by which it contracted to pay a hundred cents on the dollar in coin.

6. When the Treasury notes were first issued, and made "legal tender" for the payment of all debts, very many of those who were in debt hastened to pay it off with this cheap money, to the great injury of their creditors. During the war and the years which followed it, money was plentiful, and a great many people were led to incur debt. When the war was over, and the government took steps to bring its paper up to the value of coin, there was naturally a loud outcry. People who had borrowed sixty-cent dollars did not like to have to pay in dollars worth a hundred cents. So a great agitation arose, especially among the owners of mortgaged farms in the West. Some even proposed to convert the whole debt into greenbacks, and to give up all idea of going back to the use of Gold and Silver. Others wanted to replace all the bank-notes with greenbacks, and to make the volume of these "elastic" by giving the holders of them the right to convert them into bonds, and then to reconvert the

bonds into greenbacks' whenever they needed money. At last, in 1879, the Treasury began redeeming its notes in Gold and Silver, and from that time there has been no difference in the value of our paper and our coin.

NOTE. — A plan was suggested by Dr. Hallock of New York for the resumption of specie payments which would not have caused so much suffering to debtors. It was to take the current value of the greenback dollar as the unit of value, and to coin Gold and Silver at that rate. It might also have been provided that debts incurred before the issue of the greenbacks should be paid at the old rate.

7. These variations in value, and troubles at one time for creditors and at another for debtors, show that it is hard for governments to go into the business of issuing paper money without doing harm. Yet some good authorities think that the power to issue paper money, which is the power to borrow money from the community without paying interest, ought to be reserved to the government. Mr. Gladstone, for instance, says that paper money should be plentiful, cheap, and issued only by the government.

However this might suit England, there is a grave objection to it in America, which grows out of the great extent of our country, its method of government, and the great differences between districts in the matter of wealth. Our National government has no points at which it could issue paper money, except the Treasury at Washington, and a few Sub-treasuries in the great cities. These lie at distances from the majority of the people. A money system centred at these points would be highly centralized, and therefore out of harmony with our political system. Especially the poorer parts of the country would suffer through their distance from those centres. Money would be plentiful where it was least needed, and scarcest where it was most so.

8. This need of local centres of issue is best supplied by a good banking system. A *bank* is an institution which deals in money and in credits; and banks generally issue paper money of their own, called bank-notes.

There have been money-lenders from remote times, and for thousands of years before money was coined. The explorations of the ruins of Babylon and Nineveh have brought to light their contracts, which were traced on little cylinders of clay, and then burnt hard in the fire. So the discoveries in the ruins of Pompeii show that the Romans had their banking-houses, which loaned money, and also arranged to pay money through other bankers at a distance, by an arrangement like the letters of credit which Americans take with them when they go to Europe.

9. The first institution that was called a bank, and was anything like a modern bank, was established in the great trading city of Venice at the close of the twelfth century. At first it was nothing but an association of merchants, from whom the city had borrowed money, and was meant to protect their interests by seeing that the money was repaid. For this purpose they put all their bonds into a common stock or heap (*banco*). Afterwards they began to make payments to each other by transfers of a part of this stock. This they found so handy, that they left off wanting to have the debt repaid. And when they got coin from abroad, they readily handed it over to the City, to secure more stock in the bank, as they could make their payments more easily in that way. As the City spent the money in paying its fleets and armies, there was nothing to keep up the credit of the bank-stock but the good faith of the Republic. Yet for seven centuries the Bank of Venice went on, and an order on its stock would pass current in any of the great trading cities of Europe. This was due, however, to circumstances which no longer exist. A bank could not be managed in that way now.

10. The Bank of Genoa in the seventeenth century issued the earliest bank-notes. These were for large sums, and were payable with interest at a date specified. The English goldsmiths followed this example. For the sake of safety people brought them money to lock up in their "strong-boxes," or safes. They found that only a certain proportion of this money was likely to be called for, and that they could use the rest in loans. They lent not the coin itself, but notes bearing interest and redeemable at a specified date. They thus added a sort of banking to their proper business.

11. It was at the close of the seventeenth century that the Bank of England, the greatest of all banks, and the one which has done most to fix the ways of banking, was established in London. The British government was fighting France, and needed money. William Patterson, a Scotch minister, proposed to it the plan of a bank, which would enable it to get the money more easily. This was adopted, and in 1694 the bank began its work. It issued at first notes which bore interest, and were redeemable at a given date. Very soon it substituted notes redeemable on demand and bearing no interest, that is, modern bank-notes. It also established the granting of credits by discounting the notes of business men, and of having payments made by checks, which transferred portions of these credits from one man's account to another's. It thus copied what was most useful in the methods of the Bank of Venice.

12. This English type of bank was transferred to America after the independence of the country was established, and has existed among us ever since, with some improvements.

One of these improvements was the admission of manufacturers as well as traders among the customers of the banks. Formerly it was held that a bank existed only for the benefit of traders, and no kind of producers was given the use of its credit. This restriction has been broken

down, and manufacturers now can obtain loans from the banks of both Europe and America.

13. Another improvement is the deposit of public bonds for the security of the notes issued by the banks. This was first done in the State of New York, and was copied by the United States in planning the system of *National Banks*, which has existed since the War for the Union. At present only United States bonds can be thus used, and they are deposited with the United States Treasury before the notes are issued. Should any National Bank fail, its bonds would be sold for the redemption of its notes.

NOTE. — As fast as the National debt is paid off, the bonds to be had for this purpose are diminished in amount. This forces a contraction of the bank-note currency. This could be corrected by allowing the banks to deposit State, County and Municipal bonds, instead of or along with those of the Nation. This also would enable the extension of banking in the poorer parts of the country.

Under the present law none but United States banks can issue bank-notes. There are still many State banks which carry on other parts of the banking business. But if they attempted to issue notes, they would have to pay a tax of ten per cent a year upon their amount. This would make it unprofitable.

14. Still another improvement is the frequent inspection of the banks' accounts by expert officials employed by the government. This is done at irregular intervals and without notice. Should any stockholder show a good reason for asking an additional or special investigation, this also is done. Thus the banks are prevented from disobeying the laws made for the protection of their stockholders and of the public.

15. The English and American way of conducting a bank is not the only one. Other countries have had their methods of banking, from which Americans might learn a good deal.

The first of these is Scotland. At the close of the seventeenth century Scotland was one of the poorest countries in Europe. It had very few manufactures, not much trade, and agriculture of a poor sort. For want of any employment its people were idle, and were supposed to be unwilling to work. One patriotic Scotchman actually proposed to reduce them to slavery, in order to put a stop to their idle thriftlessness.

16. In 1695, the year after the starting of the Bank of England, was the beginning of Scotch banking. From the first the Scotch banks included among their customers all classes who own property, farmers and manufacturers no less than traders. They also dealt with these customers, not singly, but in small groups, every man in the group being responsible for all the rest. And instead of granting temporary loans by discounting notes, they gave each person in each group a "*cash credit*" for an amount specified, this to continue until the bank saw some good reason for discontinuing it. The amount of this "*cash credit*" was the limit up to which he might draw upon the bank; but he drew only what he needed, and paid interest only on what he used.

17. The advantages of this Scotch method of banking are (1) the greater safety of the banks. Every loan they make is secured by the credit of the whole group; and unless all fail, the bank cannot lose. In two hundred years only three Scotch banks have failed. (2) The greater safety of the business community in dealing with such banks. In English and American banks the supply of credit depends on the constant renewal of the volume of discounts. If the directors fear that hard times are coming, they are apt to refuse fresh discounts except to a few of their best and safest customers. This itself tends to make money scarce, to create alarm, and to hasten on a panic. As the "*cash*

credits" of the Scotch banks are based on permanent contracts, and not on the discount of notes which have to be repaid in a month or two, their directors cannot cause such trouble to the business public. (3) The including of all industrial classes among the bank's customers. In England and America the farming class are excluded as a rule. This has thrown them into an attitude of hostility to the banks. They do not know why they should have to borrow on mortgage, at from eight to twenty-five per cent interest, when traders and manufacturers can borrow on their business notes at much lower rates. So they generally have disliked banks, and more than once they have tried to abolish them altogether. A Scotch bank would be their best friend.

18. It is true that there are especial difficulties about lending money on the credit of land. There are commonly uncertainties as to the ownership of land. It is not easily sold, if the bank should seize it for a debt. Banks which have been established to make loans on land have often failed. One did so in Scotland. But in Germany they devised a plan of land-banking, which has been highly successful.

At the close of the second Silesian War, in 1763, that province of Prussia was utterly exhausted. The cattle had been destroyed, the farm and outhouses burnt down, the people left without means to buy seed for a new harvest. The King, Frederic the Great, had neither money nor credit to offer them assistance. It was suggested that all the land-owners of the province should pledge their land jointly as security for a loan. This they did, and the government secured them the loan on easy terms. The single farm or even estate was bad security; the whole land of a province was found very good security. Since that time the principle has been extended all over the continent from Russia to Portugal, some of these land-banks being government insti-

tutions, while others are private associations of land-owners. But neither England nor America has adopted them, although our own country would have found them very useful.

19. In Germany they have gone still farther, and have included workingmen, who have little or no property, within the system of banking credit. The single workman, as he has nothing but his health and strength to depend upon, cannot borrow. If he fell sick, or were killed in an accident, the loan would be lost to his creditor. But the association of hundreds and even thousands of workingmen, in which each stands as security for all the rest, can borrow money at low rates. The illness or death of a few makes no difference, as the rest can bear the loss easily. On this kind of pledge hundreds of millions of dollars are borrowed at low rates through the People's Banks of Germany. But neither England nor America has adopted these banks. We follow the aristocratic English plan, which leaves the free-hold farmer and the workman outside the system of banking credit. Our system is like a "limited express," made up of palace cars, for the wealthy to travel by.

NOTE. — The demand of the Populist Party in the West and the South grew out of this fault in our system. They denounce all banks, because they know only those of the aristocratic type we have copied from England. They ask the Nation to lend them money on their crops, so that they may not have to sell great bulks of wheat, corn and cotton as fast as these are harvested, because this forces down prices, and hands over the profit of farming to the speculators, who buy when prices are low and wait for a rise. But this advance of money to enable the farmer or planter to wait, is just what a bank of the Scotch kind or a land-bank, would furnish.

20. A bank, as we have seen, has several branches of business united in one house. (1) It is a place for the *deposit* of money, for those who wish to lend it out at interest.

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(2) It is a place for the *issue of paper money*, which bears no interest, but must be redeemed in coin or in some other form of National money, whenever this is asked at the bank. In the Scotch system, before the English Parliament restricted the issue of their bank-notes, all demands on the banks were paid in their notes, checks being not much used in payment. When an employer had to pay his workmen, or a trader to make a purchase, he drew notes from the bank to the amount required. In the English and American method, large accounts are settled by check, and notes are drawn out only to make payments to those who keep no bank account.

21. The most important branch of the bank's business is (3) *dealing in credit*. In Scotland this is done by a permanent contract between the bank and a group of persons, who each possess some property, and who are mutual security for all the credit obtained. In England and America it generally is done by the discount of business paper. Sales at wholesale are generally made on credit, extending to thirty, sixty or ninety days, and the purchaser gives his *note* for the amount. This note the seller usually *endorses*, and offers it to the bank for discount. If the bank agrees to discount it, it deducts from the amount of the note the interest for the time it specifies, and gives a credit on its *ledger* for the remainder. When the time expires, either the buyer who drew the note, or the seller who endorsed it, must pay its full amount. In some cases these credits are given simply upon the note of a business-man, which is called *single-name paper*. In others they are given upon such a note secured by the deposits of stocks, bonds or mortgages as *collateral security*.

22. These credits on the bank's ledger are a third form of money, called *money of account*. This money makes the payments of all the large transactions of the modern world, except those which take place between different countries, where coin is used to pay the balances. The credit-money

of our four chief cities on the Atlantic coast amounts to at least \$600,000,000. The law sets no limit to its amount. That depends on the demand for discounts and loans, and upon the discretion possessed by the directors of the banks. It is not redeemable in coin or anything else. Indeed we have not coin enough for such a purpose. And it is, of all kinds of money, the most variable in its amount. It depends on the confidence felt by the directors of the bank in the general soundness of business. If anything occur to make them timid, they may produce a scarcity of credit by refusing fresh discounts sufficient to keep up its volume, and thus cause a tightness or stringency in the money market, which may end in a general panic.

23. To meet this danger we need the Scotch method of creating credits by permanent contracts with groups of mutually responsible persons. At present the only usual combination of responsibility is that of the drawer and the endorser of the note, and the latter generally has but imperfect means of knowing whether the former will be able to pay it. Mutual responsibility in Scotland is preceded by a searching inquiry into the affairs of each member of the group by the rest.

24. The three forms of money are coin, paper money and money of account. Banks are generally the creator of the second, and always of the third. The bank has been gradually developed, and is capable of still farther improvement. Our own country should adapt its practice to the experience of those countries which have made banking democratic, by including the farmer and the workingman within the advantages of the credit system. Thus we might bring to an end the hundred years' war, which has been waged by the poorer classes and sections on our money system.

## CHAPTER VIII.

### *Taxation and Public Debts.*

1. GOVERNMENT costs money, and good government costs more than bad. The more advanced a country is, and the better its institutions are adapted to its people, the more costly its government will be. Especially a federal system, like that of the United States of America, which has four governments — National, State, County and Township or Municipal — at every point, cannot but be a costly arrangement.

2. The earliest rulers, the patriarchal chiefs of the tribes, being the heads of a communistic system, were the chief owners of its whole property. They took what they needed, or wished, from the common stock. Something like this lasted on in later times, when the Kings took whatever they needed on their journeys. But the practice was much disliked, as it fell so unequally on the people; and it was most practiced by mean Kings, like John of England. It was said of him that the very chickens fled from their roosts when they heard he was coming.

With the growth of the right of private property, taxation began. Its first form was the right of the Chief or King to stay a specified number of days with each of their subjects, and to bring with them a specified number of men. The story of King Lear and his daughters seems to refer to this arrangement.

3. Afterwards came the *feudal system*, in which the barons and knights held their lands as the King's tenants, and rendered military service for them. The King drew his own revenue chiefly from his own lands, and from fines imposed

by his judges, and fines paid by the heirs of each estate for being allowed to succeed to possession of it. In course of time the King began to accept a money payment (scutage) in place of military service, and then to levy a tax on all lands of the Kingdom (carucage). With the rise of the towns, the townspeople, especially the traders, began to be taxed (talliage), but the chief dependence was on land-taxes, as land was the principal property of the time.

4. In modern times the chief wealth of civilized countries has come to be in other things than land and farms. As a consequence there has been a shift of much of the burden of taxation from land to personal property, and especially to the articles produced by manufacture at home, or imported from abroad. This also has been a shift from direct to indirect taxation.

A *direct* tax is one which is borne by the person who pays it. Such are taxes on land, on inheritances and on income. An *indirect* tax is one which is passed on by the person who pays it, to some other person who bears the burden. It is covered up in the price of some article he buys; and if the bill for that were fully made out, it would specify that the price was so much, and the tax so much in addition.

5. It is not always easy to say whether a tax is direct or indirect. Suppose that a tax were laid on shoes, a dollar a pair, who would pay it? If the shoe-market were fully stocked with shoes, and the shoe-dealers were underbidding each other for custom, the whole dollar could not be added to the price of shoes, and perhaps no part of it would be. It would be a direct tax. If the supply of shoes were short, and the shoe-dealers had a good understanding with each other, they would probably add the tax to the price, so that it would be an indirect tax. Or they might make up part of it by reducing the wages of their workmen, unless the latter were well organized in a 'Trades' Union, and prepared to

resist such a reduction. Thus taxes "move on the line of least resistance," as Prof. Sumner says.

When the British Government laid a tax on the tonnage of English shipping, they said this would be an indirect tax, as it would raise the charge for transportation. As there were more ships than the business required, it was really a direct tax on the ship-owners, and was repealed on that account. So a tax on houses and on house-lots may fall upon either landlord or tenant, according to the condition of the market for such property. If hard times have led many families to give up housekeeping and to go to boarding, the landlord will pay it, and it will be a direct tax. If times grow better, and a lively demand arises for houses, the landlord will shift it upon his tenant, and it will be an indirect tax.

6. In general, direct taxes are better than indirect. It is best that people should know what their government costs them, as this rouses them to watch how the money is spent, and is a safeguard against waste and extravagance. The people who pay direct taxes are generally the most active in behalf of honest government, although they too often confound that with low taxes and oppose new outlays which are really needed.

Indirect taxes also fall more heavily on the poorer classes than on the rich. A tax on tea, for instance, such as is levied in England, is drawn from all the tea-drinkers of the country. The rich man uses little more tea in a year than does the workingman, and he pays not much more in taxation for tea. The poor are taxed constantly, in small amounts each time, and yet to a large amount in the course of a year. Such taxes tend to make the rich richer, and the poor poorer.

7. An indirect tax is not so open to these objections when its object is to discourage the use of some objection-

able articles, such as whiskey, beer or tobacco. Until last century intoxicating drinks were generally too costly for the poorer classes to use them much. But first gin, then whiskey and in eastern Europe vodka (or potato-whiskey) have put drunkenness within the reach of all classes. The London gin-shops used to exhibit a sign: "Drunk for a penny; dead-drunk and straw for two-pence." To check the growth of intemperance by making intoxicants dearer, they were laid under *excise* taxes.

8. While direct taxes are the best, there are difficulties in the way of getting them assessed and collected properly. The greatest of these is the resistance of those tax-payers who hide away taxable property or make false returns as to its amount. As such taxation presents especial temptations to frauds of this kind, it is said to be demoralizing, and therefore mischievous. But temptation to do wrong does not make men do wrong; it only gives a chance for their meanness to show itself, or for them to overcome it and thus become better men. All free people assume that their government speaks the truth to them. It has the right to assume that they will tell the truth to it.

9. Another objection to direct taxation is that it leads to excessive economy, and thus to neglect of duty, on the part of the governments which depend on it. The property-owners have influence with the legislature, and they frequently exert this influence to keep down the tax-rate below what is really needed. The States of the American Union depend almost entirely upon direct taxes for their income. They, therefore, with some exceptions, spend less money than they ought on the objects for which they have to provide. Their schools are far from being as good as they ought to be, and in many cases they are open only during the winter months. Their roads are commonly very poor, and in bad repair. They do not carry out any proper

inspection of mines, factories and dams, or of the articles offered for sale as food. Their prisons are often in a shocking condition. Other States attend to these matters very well indeed; but their tax-rate is very high, and we find manufacturing firms moving their works away from these States to escape the heavy taxation.

10. To equalize this, it has been proposed to distribute the surplus of the National revenue among the States, as was actually done in 1836. In our federal system the Nation in ordinary times has not much to do, and it has the command of the most abundant sources of revenue, which are the taxes on the manufacture of intoxicants, and duties on imported goods. It has thrice had to consider what it would do with its surplus of revenue. When its outlay on pensions diminishes through the death of its old soldiers, and its war debt is extinguished, it will again have a surplus to dispose of. By distribution of this it could raise the standard of government among the States, and lighten the burden of taxation in those States in which the government is most efficient.

11. In selecting the objects of taxation great care must be taken to watch the effects of each tax. Spain, by retaining the Moorish tax upon every purchase and sale (*alcala*) did a great deal to destroy commerce among her people, and thus to unfit the country to profit by the inflow of Silver and Gold from America (see p. 40). Russia, by retaining the heavy poll-tax, first imposed by the Tartars of the Golden Horde when they overran the country in the twelfth century, kept her poorer classes in their poverty by a taxation proportional to numbers, and not to ability to pay. The window-tax and the hearth-tax levied by the British government in former times, led to the walling up of windows, and the crowding of several families in the use of a single hearth, and thus injured the health and the family life of the poor. So the tax of five cents on each copy of a newspaper, for-

merly levied in Great Britain, helped to keep the people ignorant.

Taxation should be planned to fall only on those who produce or possess more than is necessary for their subsistence, and to take only what they can spare without diminution of their productive power.

12. Some have proposed to avoid the need for a selection by taxing everything in proportion to its value. This would result in taxing many things which it is the interest of society to have owned by all classes, such as books, musical instruments and other means of culture. It also would require the taxation of some things several times. Thus iron would be taxed first as ore, then as pig-iron, then as steel ingots, and lastly as finished machinery. It also would work nearly as badly as did that Moorish tax in Spain, by taxing things in movement, and thus checking the industrial circulation. As a general rule, taxes should fall on things which are at rest, and not on those which are in motion. Lands, houses, incomes, articles of luxury in the hands of those who enjoy them, are proper objects of direct taxation. So are those corporations which enjoy *natural monopolies* through charters bestowed by the State. Thus a railway secures its right of way through the State taking the land it needs from the former owners at a value assessed by a jury. No other railway, as a rule, can be constructed on the same line. A corporation thus doubly favored should contribute largely to the public revenue. So should a street-railway, which is given the use of a public street.

13. One proposal is to tax only land-values, making the tax high enough to take the annual value of the unearned increment (see p. 20) of the land. It is said that this increment owes its existence to the growth of society, and not to the labor of the land-owner, and that society has the right to take what it has created. This *single tax* on land-values,

it is claimed, would suffice for all the needs of government, would thus exempt the direct products of labor, such as houses and manufactures of all kinds, from public burdens. It also would make it not worth any one's while to keep possession of more land than he could till, as no one would get more from land than the labor he had expended on it. Thus there would be plenty of land for all who wished to till it, and were willing to pay the land-tax.

14. To this proposal there are several grave objections. The first is that it would be grossly unjust to introduce such a system of taxation at this stage, however fair it might have been if it had been established at the first. Suppose the case of two men, who have each earned \$20,000 in a profession. The one puts his money into railroad-bonds, and the other buys land with his. The latter pays for the unearned increment on the value of his land, as well as for the earned increment. He pays, that is, for its nearness to a great city, or to a railroad, and to schools, churches, village stores, and the like, as well as for the labor spent on the land itself in clearing, draining, fencing, house-building, and the like. The laws of the State recognize the rightfulness of his purchase when he is making it. Is it fair to him if the State should afterward subtract from what he has bought a third, a half, or even more, on the ground that this had always belonged to society, while it subtracts nothing from the values of the railroad bonds bought by his neighbor?

NOTE.—Some have replied to this that the case is parallel to that of negro slavery. The State in that case allowed persons to invest their earnings in slaves, without any warning that this kind of property was illegitimate, and yet it afterwards took away not a part, but the whole. But the cases are not parallel. The slave owned himself by natural right, and never had or could surrender his right in himself. The unearned increment is claimed as the property of the community, which both can waive and has waived

its right by the legislation which sanctions and records purchases of land. Even the abolition of slavery without compensation would have been unfair, if it had not been the result of war. If abolition had been effected peacefully, the slave-owner would have been compensated, as was done in the British West Indies.

In view of this unfairness many of those who favor the State's taking the unearned increment as its own, propose to apply this only to the future. They would leave all the unearned increment already made to the land-owners, but would claim for the State all that is added from this time.

15. The principle that the State has the right to take the unearned increment, because this is due to the general growth of society, is no more true of land than of other kinds of property. For instance the *paid-up value* of some stocks, especially those of the fire-insurance companies, is far below their selling value. Is the State entitled to take the difference? In many branches of trade large sums are made by those who foresee a scarcity of some article, and buy it up to hold it for a rise. Are all such unearned increments to be taken in taxes? To do so would be to choke off not only speculation, but a vast amount of legitimate enterprise by which society is benefited.

16. And besides unearned increments of values, there are unearned detriments, equally due to the action of society. Is the State to pay for these? If fashionable preference shift from some streets to others, and the value of the houses fall in the former, are the owners entitled to compensation? If not, why not?

17. The task also of levying such a tax would be one of extreme difficulty. It is hard enough to assess the lump value of land, in our present system of State taxes. It would be vastly harder to determine how much was due to labor expended on that farm, and how much to labor expended on

land in its vicinity. The attempt to do so would lead to social bitterness, and would be open to many abuses.

Nor would the unearned increment thus taken in taxation suffice to pay all the expenses of government. It would still be necessary to assess other taxes upon the products of labor.

18. The theory really starts from the assumption that land holds the same place in the economy of civilized nations which it held in the Middle Ages, and still holds in uncivilized countries. It is a proposal to shift taxation back to where it was, before the growth of the other industries created wealth far in excess of the value of the land. It is medieval Political Economy.

19. In countries which are not civilized they still have a land-tax as the chief source of revenue. The Hindoo cultivator pays a fourth of his income in such taxes, and is sufficiently miserable (see p. 22). The Chinese cultivator is taxed in the same fashion, and can hardly live. In Japan the land-taxes are so high that any one can get land who will undertake to pay them; and there are few taxes of any other kind. These countries might be fairly described as living under the single land tax, yet each and all of them are poverty-stricken.

20. A *tax on incomes* is not permitted to the National government by the Constitution. Incomes of some kinds are taxed in some of the States, and England has had an income tax in successful operation for more than half a century. This is in its principle one of the fairest forms of taxation, as it taxes people with strict reference to their ability to pay, and also with some reference to the amount of protection afforded by the government. Generally the tax is levied only on incomes above a specified amount, because to collect it on those which are smaller would cost more than would be collected on them. The English tax

also discriminates between different kinds of incomes, taxing those from land most heavily, next those from business, and lastly those from professions. The reason is that the *lump value* of an income is smaller in proportion as it is uncertain of continuing. A doctor's income is worth less than that of a store-keeper, because his death may put an end to it any day.

21. In times of peace a nation's income should pay its expenses from year to year. In war this is seldom possible, and every war leaves a double burden of *debt*. As the war goes on the government is obliged to get large loans, either from its own people, or from abroad, or both. As its credit is imperiled by the war it borrows on harder terms than in peace. The money-lenders either require high interest, or they demand a big discount from the principal of the debt. That is, if they lend at four per cent, they demand a bond for the repayment of a hundred dollars, when they advance only ninety. It is better to sell bonds only at par value, and pay whatever interest is necessary. This leaves the country more free to *convert* its six or seven per cents into three and a half or four per cents as soon as they are redeemable.

22. The second indebtedness created by a war is that for *pensions*. To induce the citizens to enlist as soldiers, promises are held out that if they are killed, their families will be taken care of, and that if they themselves are disabled by wounds or sickness incurred in the service, they will be supported. Besides these two classes of pensioners there is a third, which consists of old soldiers no longer able to support themselves, although their disability cannot be traced directly to wounds or sickness incurred in the war. For these also the government makes provision. The number thus to be cared for is naturally very great, after a war which cost 400,000 lives in field and hospital, and which

saw a million of men under arms. It necessarily diminishes as that generation dies out, and in the course of time becomes a very trifling burden.

23. The debts incurred by great corporations, and even by private persons borrowing abroad, are in some sense public debts, and should be subjected to public regulation as to the amount which may be thus borrowed, and the conditions of payment. Such debts do not ordinarily bring money into the country to the extent to which they make it responsible to pay money back. Even where the interest is met by exports of produce, this tends to derange international exchanges, by requiring exports greatly in excess of imports to maintain a proper balance of trade. As such debts are incurred chiefly by corporations, and as these are especially under governmental control, it would be easy to place such borrowing under close restriction.

24. Taxation has been developed from the "boarding round" of petty kings, into a scientific assessment of all classes, and of all kinds of property, for public uses. It has passed from the land alone to other forms of property, and has tended to become indirect instead of direct. Direct taxes are the better because the juster form, but harder to get. The single tax to absorb the unearned increment of land-values is neither just nor expedient. It ascribes to land an industrial importance it no longer possesses. Public debts are the result of wars and include pensions to the disabled soldiers and the families of the slain.

## CHAPTER IX.

### *Domestic Commerce.*

1. As the earliest groups of persons were self-supporting their only commerce was between their members. This was an interchange not of things, but of services. One part of the work fell to the women, another to the men. Some men took to more active labor in hunting and killing wild beasts, while others worked at what called for less exertion. All the group profited by the labor of all.

2. Commerce in things grew up between groups, when it was found that each had something, which the rest had not, but would like to have. Gradually it extended over the whole country through the rise of a trading class, who carried their wares around, like a pedlar of our time. And with the growth of private property, the commerce within the old groups became one of things as well as of persons. Each man sold what he could produce to whoever would buy, whether in his own group or outside it.

3. Commerce thus grows out of difference in skill and difference in locality; and the more there is of either the greater will be the commerce. If all places produced just the same things, they would have nothing to exchange. If all men were producing the same things, they could not trade with each other. Wherever a people has been reduced from variety to uniformity of occupation, as in India and in Ireland, there is almost a cessation of commerce among them. No man needs or helps his neighbor, because all are doing the same thing. They therefore may have trade with foreigners, but none with each other.

4. As Adam Smith showed, the most profitable commerce for a country is that which goes on between people of the same neighborhood, or, as he called it, commerce between town and country. It is so for several reasons: (1) It requires no great outlay in getting the goods from the producer to the consumer. The cost of carriage is trifling, and adds little to the price. (2) It makes it possible to "turn over the capital" employed more quickly. When goods have to be sent abroad, the producer has to wait till they are carried over sea, and are sold, before he gets his money back. If he sells at home, the delay is much shorter, and the capital he is using is kept more active. Adam Smith counted that this advantage was twenty-four fold in favor of home commerce. Since transportation has grown more rapid this is reduced, but still exists.

5. (3) Commerce between distant points is not only costly through charges for transportation, and slow because of the distance, but is liable to be so managed by the trading class as to secure them excessive profits. This is especially true when the whole supply of an article has to pass through a few marts of trade on its way from producer to consumer. At these points it is found possible to buy up the supply of the article, or so much of it as will cause a scarcity, and to hold it for a rise in price. This increase the consumer has to pay, while the producer gets no part of it. In this way wheat and pork have been *cornered* in Chicago and New York, and fortunes made by extracting a much higher price from the consumer, while the Western farmer was none the better off, but rather the worse. These practices naturally led European consumers and traders to look for other sources of supply than America, and they have thus reduced our European market for food-products.

Nobody would think of cornering the wheat raised in Pennsylvania, because that is consumed in the neighborhood

of the farms which grew it. It has no distance to travel, and is not subject to the power of the trader.

6. In some cases the producers of necessary commodities follow the example of the traders, and combine to put up prices. This can be done most easily when the article is one which is produced in great establishments, few in number. Ordinarily these form a *Trust*, by combining all the establishments under a single direction and paying the profits of all out of a common fund. In case any establishment refuses to unite with the rest, the Trust sometimes seeks to coerce them by obtaining control of the supply of the raw material, or by securing from the railroads more favorable rates for transportation than these independent firms can obtain.

It is not true that Trusts always put up the prices of the article they produce. But even when they do not, they yet have the public at their mercy. They are at best benevolent despots ; and freemen wish to live under no kind of despot.

7. Trusts formed by the combination of corporations are essentially illegal. The *corporation* is the creation of law, and possesses no other powers than its charter expressly confers. It "must keep within the four corners of its charter," the courts say. If a corporation be chartered to make coats, it cannot make shoes under that charter. If it be chartered to refine petroleum, or distil whiskey, or make plate-glass, it cannot combine with others to put up, or keep up, the price of whiskey, or of oil, or of glass, without going outside its charter, and thus becoming liable to forfeit it. When all the States do their duty in enforcing this legal principle, there will be few Trusts left.

8. Sometimes, especially when business is bad, the producers of some article form a temporary combination to regulate prices. This is called a *Pool*. It differs from a Trust in that it seeks not to put an end to competition, but

to restrict it for a time. But even this should not be allowed, except under some sort of governmental control. Thus on the continent of Europe the railroads form such pools under the direction of the governments, which take care that the terms are not unfair to the public. Such an arrangement is much needed in this country. The jealousies and competition of our great railroads tend to force their charges down so low at times as to leave them no profits on many branches of their business. This makes the railroads weak, and therefore unable to serve the public in other matters. It also tends to drive different railroads to consolidate into one, so as to put an end to competition, *i.e.*, to form railroad Trusts.

9. The proper regulation of railroad traffic is of great importance to domestic commerce. In America it is made difficult by the fact that each State has sole control of commerce within its bounds, while the Nation alone controls the commerce which crosses the lines which divide State from State.

At first no attempt was made at regulation. The railroad was so welcome, that it was given the *right of way* by State authority, and was also given large grants of land, and in some cases of money. Eight times the area of the British Islands was voted in land-grants to our railroads during the third quarter of the nineteenth century. Afterwards complaints began to be heard from the farming States of the West, that railroad charges were so excessive as to eat up the profits of farming, and that favoritism was shown to favored places, and to large customers. In this way small towns, to which but one road ran, were checked in their growth, while cities, in which several roads centred, were helped as much as the others were hindered. Small producers and traders were crushed out, and the big ones secured a monopoly which enabled them to charge higher prices.

10. The railroads first met these criticisms by the answer that they had a right to do as they pleased with what was their own. They said that just as the farmer or the manufacturer put what price he pleased on his wheat or his cotton cloth, so they had a right to regulate their charges with a view simply to their own interests. To ask anything more of them was to talk socialism and communism.

The courts, first of those Western States and then of the Nation, decided the case the other way. They held that as the railroad owed its very existence to the action of the State, both in chartering it and in giving it the right of way, it was not a private concern like a farm or a cotton factory. Besides this, the business of transporting goods and persons for pay always had been kept under strict control of the law, in order to prevent unfairness and favoritism of any kind. So the States had the right to limit the charges made for carrying goods, and to require that those charges shall be proportional to distance, that they shall be the same to every one, and that they shall not be changed without public notice.

11. The Nation undertook to regulate the part of railroad traffic under its jurisdiction by the Inter-State Commerce law of 1887. This forbids favoritism, and pooling of rates, and requires that no charge for a shorter distance shall be higher than for a longer one. The bill went too far in forbidding pooling, instead of regulating it. It also went too far in enacting that in no case shall a higher charge be made for a shorter distance. Where railroads have to compete with water transportation, they must put their rates lower than would be remunerative for their whole business. To require their rates to such points to be strictly proportional, is to forbid them to carry freight to them.

It is just to forbid special rates to points where other railroads run, but where there is no competition with water carriage. It is not good policy to have such places built up

at the expense of the smaller towns, and the railroads should not be permitted to manage their business in a way which tends to this. For the same reason they should not be permitted to break down small dealers by showing favors to great ones.

12. Thus far the general tendency of the management of our railroads has been toward centralization. It has tended to build up the cities at the expense of the towns, and the towns at the expense of the villages. It has tended to deprive the farmers in the closely-settled districts of their natural advantage, by charging no higher for carrying farm produce a long distance than a short one. It has tended to keep manufacturers and farmers apart, by giving the manufacturing districts their supply of grain and flour from distant States at very low rates of carriage.

13. It is only since the passage of State and National laws to regulate the railroads, that the decentralizing tendency has begun to operate, and its effects are hardly visible as yet. Our right policy is not to sacrifice the country to build up great cities, nor to keep some districts busy with manufacturing while others feed them and take their textile goods and hardwares in exchange. It is rather to create a vast number of local centres of trade, in each of which the farmers and the manufacturers shall live in neighborhood, and carry on the "trade of town with country" which Adam Smith liked so well. It is to create an industrial system which shall correspond to our political system, in which we so carefully avoid sacrificing local interests to centralization.

14. Not only our railroad policy, but also our monetary policy tends to centralization in domestic commerce. Our National banking system is suited only to the Northern and Eastern States, which now can afford the highest security in the character of the money they use. They at the first had to use money which was far from being well secured, but

which was the best they could get. A new community must take risks in such matters. It has to put up with railroad accommodations far inferior in point of safety to what the people of the richer States enjoy. If we had a National railroad law, which required every road to be built with the thoroughness, and conducted with the precautions, which are possible in the older States, the new States would be left almost without railroads.

Yet not unlike such a law is that which forbids any bank to issue paper money until it has bought National bonds to the full amount, and deposited these with the Treasurer of the United States. The effect is that there are few banks and not many bank-notes in the South and West, while the North and the East can have as many as they choose. A change which would enable each of these poorer communities to establish its own bank of issue, and give its producers credit, as the Scotch banks do, would be of great use. It would both relieve them from the need to borrow from the older States on mortgage at high rates, and would tend to develop local business of all kinds. Their need would not be met by larger issues of either Treasury notes or Silver dollars, for these forms of National money are even more centralized in their issue than are the notes of the National Banks.

15. In the regulation of our domestic commerce it is the right and duty of the State to guard the health and lives of its people. It should see that no articles are sold for food which are unfit for human use through either decay or immaturity. It should require that food and medicine shall be free from adulteration of all kinds. It should see that transportation companies take proper precautions to protect both passengers and employees from foreseen dangers. The number of train-hands killed every year on our railroads is a blot on the Nation. It seems to prove inhumanity in us, but

really stands for thoughtlessness, and "evil is done by want of thought as well as by want of heart."

16. The commerce in some kinds of articles is attended with so much danger as to justify the requirement of special precautions. Thus the storage of explosives in large quantities within a city is not allowed, and even gunpowder can be sold only by those who take out a special license, and show that they have taken proper precautions for handling it.

It is much the same with the sale of intoxicants. Some States forbid this by law. Those who allow it should exact special security from all who undertake it. They should be persons whose social record is good, and who can be trusted not to sell to minors, to persons already intoxicated, or at hours when the sale is forbidden. The number of such places should never be greater than is necessary to meet the actual demand. If there be more, they will push their trade by free distribution of articles calculated to provoke thirst, by sprinkling whiskey on the sidewalk, and by other means.

17. Domestic commerce is that which is of most importance to a Nation. It is based on difference in industrial skill and toil. It is liable to injury from combination of both producers and traders. Our railroads have harmed it by unfair charges, which tend to centralize business at a few points; but our laws are seeking to undo this harm. Our banking system has had the same bad tendency, which also should be corrected by law. Some branches of domestic trade require special precautions.

## CHAPTER X.

### *Foreign Commerce.*

1. WHILE domestic commerce depends on differences of employment within the country, foreign commerce grows out of differences of climate and productions in different countries. It secures to each country as much as possible of the advantages of the rest. It supplies to more northern regions the spices, fruits, tea, coffee and sugar which flourish best in the neighborhood of the Equator. It sends in exchange for these the flour, tar, pine-lumber, ice and the like which belong to the colder climates towards the poles.

Besides this, foreign commerce establishes profitable exchanges between countries whose people differ in the degree of their civilization. It supplies dress fabrics, tools, knives and ornaments to people unable to produce these for themselves. It takes in exchange their ivory, copra (dried coconut), camphor, fur-skins, india-rubber and other rude products which it uses in its manufactures.

Even between nations of the same general rank in civilization, there is a natural commerce in articles of finer workmanship, which represent the development of national taste and skill. These range from works of art and books finely printed and illustrated down to dress fabrics of graceful design, and the like.

2. As in a well-managed household, the expenses of the year will be at least no greater than the income, so in a Nation whose economies are well seen to, there will be no excess of imports over exports, to require the export of money to settle the balance. If, indeed, a country is producing more Gold or Silver than it can find use for at home,

the export of these as commodities may be made without loss. In that case they are simply commodities, like dry goods or hardwares. So, also, if a nation has made large loans to others, it may take the payment of the interest in imports without any disadvantage to itself. Or, if it have a large body of shipping, and carries goods for other countries, it can take the payment for this in imports without incurring any debt. In this way the balance of trade may seem to stand against a country, when it really is in its favor.

3. Our own situation as a trading nation is the reverse of these suppositions. We produce a great deal of Gold, but not enough for our own use, and any sign of its being needed for export causes a just alarm. We are heavily in debt to England, Holland and Germany, and must export grain, cotton, meat-products and other articles to pay the interest. Through our neglect of our shipping, we have to pay that of other countries, especially England and Norway, to carry our exports and imports. We need, therefore, to export goods to the value of all we import, and also to the amount of the interest on our indebtedness to Europe, and to the amount of the charges made for our use of foreign ships. When we succeed in doing this, we neither export Gold nor go more heavily into debt.

4. It is said by some that there is no harm in exporting Gold or Silver, since these are less useful than the things we get in exchange for them. Those who say this regard money merely as the instrument of exchange, and not as that of association for production. They hold that its export can but lower prices in the country, and thus induce foreigners to bring back Gold to make purchases. It has been shown (see pp. 35-41) that the facts do not fit this theory. The countries which have least money are the countries of small production and of high prices. Those which have

most money have also the best organized system of labor, and, therefore, the lowest prices. To export money is to give irreplaceable power in exchange for the products of power.

It is true, as these writers insist, that nobody can eat, drink or wear Gold, and that, by exporting it, we buy things which meet these immediate needs. But this proves nothing, as the most useful things are not those which we can eat, drink or wear. They are those which enable us to furnish an ample supply of things to eat, drink and wear. And this Gold does.

5. For this reason, among others, it may be wise to impose restrictions on the import of articles which can be made at home, with a view to promoting their production at home. This is generally done by laying a duty upon those articles when brought in from abroad. The list of such duties is called a Tariff. In America, such duties are now laid only by National authority, and our Tariffs are made or altered by Congress.

Not every Tariff aims at promoting the manufacture at home of the articles on which it imposes duties. In some only those articles are put under duty which cannot be made at home; or if any article made at home be included, the home-made article is taxed equally. This is the method of the present English Tariff. It thus avoids turning capital and labor to the production of any articles which they would not undertake if there were no such law. This is called Free Trade, and such a Tariff is *for revenue only*. It is a form of indirect taxation, which is open to the objections that lie against such taxes. It falls more heavily upon the poor than upon the rich, as it taxes the consumers of tea, coffee, spices, tobacco, and other articles in proportion to their consumption of these articles, and without regard to their ability to bear such taxes. It thus tends to make the rich

richer by exempting them from their fair share of the public burdens, and to make the poor poorer by laying an unfair share of these burdens upon them.

6. A Protective Tariff is one which imposes duties on imports with the purpose of setting capital and labor to producing what they would not produce if there were no such law. It selects for taxation commodities which can be produced at home, and exempts from taxation those which cannot. The Tariffs of France, Germany and America generally have been of this kind, as also were those of Great Britain before the year 1846.

This also is indirect taxation, but it is of the same class with the taxes on intoxicants, as its object is to discourage the consumption of the imported article, and thus leave room for that which is made at home. And while the Tariff for revenue is a permanent arrangement, a protective Tariff, as fast as it attains its object, ceases to tax the consumer. When the foreign article is no longer imported, this duty is no longer paid.

7. It is objected, however, that "the duty is paid upon the home-made article, and goes not into the Treasury of the Nation, but into the pockets of the producers. It is added to the price of the article, and the manufacturer is enabled by the Tariff to tax the people to his enrichment."

Let us see if this is true. It is true that at the first the price of the article, whether home-made or imported, rises after a protective duty has been laid on its import. It is also true that for a time the profits of producing that article are likely to be greater than are profits generally. The effect of this, however, is to attract more capital into the business of making it, until competition between the home producers pulls down prices, and with them also profits to the level of profits generally. If the Tariff law conferred a monopoly upon some producers, as a patent for an invention does,

then prices and profits might be kept up. But it does not do so, and it is admitted by economists of all schools that in the absence of a monopoly profits cannot be kept above the average level.

8. The manufacturer of the protected article does not "add the duty to the price" at any stage. If he did, he would get no advantage from it, as his product would be offered to the dealers at exactly the same price as the imported article. Now in such cases the foreign article is in possession of the market. The dealers have become used to handling it, and are on friendly terms with the foreign maker. In many cases they are simply his American agents, and are greatly interested in keeping out the home-made article. The consumers also are accustomed to the imported article, and they generally are not free from the notion that what comes from abroad must be better than what is made at home. So the home manufacturer must undersell his foreign rival, if he is to get a footing even in the home market. He cannot add the duty to the foreign price, or he would make no sales.

9. As home competition grows and prices fall, the foreign producer must either give up the market or pay a part of the import duty. The share of it he has to pay increases with the development of the home manufacture. Hence we find in his trade-circulars, statements that he has to be "satisfied with a smaller average of profit" in America, "than in other markets" where the home competition is less; and that "a material reduction of the American duty, or something like it, is necessary to advance the price."

10. Tariff duties may be either specific or ad valorem.

*Specific* duties are those which are based on the quantity of the article, independently of its value. They are rated at so much a square yard, or a cubic foot, or a hundred-weight, or a gross. As the quantity is always easily ascer-

tainable, there are few openings for fraud in the custom-house. Such duties also fall the heavier on coarse and bulky articles of lesser value, and thus offer less temptations for smuggling. In a few cases they would operate unfairly. Thus a specific duty falling equally on all grades of raw sugar would be, in the case of coarse sugars, a tax on the dirt to be taken out by the refiner. For this reason sugars pay duty in proportion to their fineness.

*Ad valorem* duties are levied on the value of the article. They fall heavier on costly goods of less bulk, and therefore more easily smuggled. As the value is certified in the invoice sent by the exporter, much trouble has to be taken by our Consuls in Europe to ascertain the truth or falsehood of these statements, and not always successfully. They therefore offer a high premium upon custom-house frauds. For this reason the English Tariff is so arranged as to admit of no *ad valorem* duties, while those who, in America, profess to admire English Tariff legislation, generally strive to have the American Tariff constructed on the *ad valorem* principle.

11. As was pointed out by Mr. Calhoun in 1846, *ad valorem* duties work to the injury of the American manufacturer. In good times, when prices are high and demand is steady, these duties are high also. When prices fall and demand is diminished, the duties fall proportionally. Thus he gets protection against foreign competition when he least needs it, and loses it when it is most needed. Mr. Calhoun proposed to substitute the method of the *sliding scale*, which the English used in laying duties on imported wheat. By this method a normal price for the article, at which it can be produced at home with a fair profit, is agreed upon. When the price rises above that, there is no import duty. When it falls below it, the duty begins; and the lower the price the heavier the duty.

12. Besides Tariff legislation for the regulation of foreign commerce, nations employ treaties of commerce, either general or based on the principles of *reciprocity*. In Europe, indeed, the general practice is to enact two Tariffs, one for foreign goods generally, and the other for the benefit of those countries which are to be admitted to reciprocity. This is useful as limiting the treaty-makers in the extent of the concessions they may grant. For want of this in America, a President and Senate of Free-Trade opinions might abolish a Protective Tariff by admitting all the great trading nations to the footing of reciprocity on terms unfavorable to us. It is therefore understood that the Senate shall not approve such a treaty without the consent of the House.

13. The character and purpose of reciprocity treaties may be shown best by taking the case of our own commerce with the American republics to the south of us. Until those colonies became independent of Spain, their commerce was monopolized by the mother country. When they revolted, their ports were thrown open to British trade, at a time when that was shut out of those of Europe by Napoleon's *Continental System*. After the return of peace to Europe, the *Holy Alliance* proposed to reduce the Spanish colonies to their former position. Mr. Canning, in view of the perils to British trade this would involve, suggested to our government to declare that we would not permit of this. The result was the Monroe Doctrine of 1823, which put a stop to the plans of the Holy Alliance.

Mr. John Quincy Adams, then our Secretary of State, was the statesman who gave ear to Mr. Canning and wrote the words of President Monroe's declaration. It was not his purpose, however, to leave these sister republics to British trade alone. He planned an American Congress, which should establish a *State System* for the New World, and promote commerce as well as secure peace among them. Our politi-

cal dissensions defeated the plan, and for eighty years we maintained an attitude almost of indifference to our commercial relations with those countries, while guaranteeing their independence. We held the wolf by the ears while England shore the sheep.

14. With the growth of our manufactures since the War for the Union, our commerce with Central and Southern America acquired a new interest. We found (1) that we were buying from them twice as much as we sold to them; (2) that our products of all kinds were paying import duties in their ports while theirs generally came free into ours; (3) that through neglect of our merchant shipping we were paying England to carry our products to our own neighbors, and to bring back theirs to us; (4) that this commerce was so arranged that we paid for their coffee, hides, sugar, spices and india-rubber, not by our exports to them, but by our sales of wheat and the like to England. Ships sailed from England to South America laden with English cottons and hardwares; in South America they took cargoes for New York; from New York they sailed for England with cargoes of American grains.

15. As most of these countries were competing with each other for our market for sugar, coffee and hides, it was found possible to secure from several of them treaties by which they agreed to admit our flour, meat-products, farming machinery and the like into their ports free of duty, on condition that we admitted their products free into ours. In no case did we ask free admission of anything they were able to make or grow for themselves. The Tariff of 1892 was especially adjusted to make such treaties possible; and under its operation there was already a considerable increase of our trade with these neighbors to the southward. But the Tariff of 1894, by abolishing the discrimination, abandoned the advantage.

16. The maintenance of *merchant shipping* is another measure for the proper regulation of foreign commerce. The country which has few or no ships, and exports largely, must devote a considerable share of its exports to paying for the use of ships. It is liable, therefore, to have to export its money to pay adverse balances of trade, unless its exports are enough to pay both for what it imports and the hire of the ships.

In colonial times, America was a ship-building country, and the New England colonies were chiefly employed in this industry, in commerce and in the fisheries. Their farms never produced food enough for their people. The success of the War for Independence closed the English market to American ship-builders, and shut American ship-owners out of any carrying trade, except our coast-trade and that between American and foreign ports. The entire tonnage of our shipping ran down to a fourth of what it had been, and the Eastern States were suffering badly for want of employment for their people.

17. After the adoption of the Constitution, Congress enacted a series of *navigation laws*. They were modeled on those which Cromwell established for England, and which in his day destroyed the monopoly of the carrying trade by the Dutch. These forbade ships of other countries to bring into American ports the products of any country but their own and its colonies. They also imposed a tonnage-tax on foreign ships entering our ports, and heavier duties on the imports they brought than on those brought in our own ships. To encourage ship-building, they allowed to no ship the advantage of these laws, unless it had been built in an American dockyard, or had been taken a *prize of war* by an American ship.

Under the encouragement offered by these laws, American shipping revived at once, and grew rapidly. Ship-building

was improved as regards both the form of the hulk and the method of rigging, so that the American clipper-ship sailed faster and was handled by a smaller crew than any other. Our ships got all the fast, well-paying business which the navigation laws of other countries permitted them to take. With favorable winds they crossed the Atlantic as fast as do many of the steamships now.

In 1828, in the hope of opening to them still more of the carrying trade, Congress offered to remove all restrictions from the ships of those countries which would do the same for us. Some of them did so at once, but not England. She clung to her Navigation Laws until 1850, and then, by repealing them, took advantage of our offer, when the conditions had changed so as to favor her ship-builders.

18. This change was from wood to iron (or steel) and from sails to steam, in ship-building. Here we were at a disadvantage, as our iron trade was far behind hers. Besides this, all the European countries were anxious to take advantage of the change, and to secure as much as possible of the new shipping. So they began to pay *subsidies* to their steamship lines, first openly, and then under cover of paying them to carry the mails. America also tried to compete, building steamships of wood, which were the fastest on the ocean, but not the safest. These also were paid subsidies until 1855, when the Senate refused to continue this. From that date our shipping has been left, for the most part, to take care of itself, except in the coasting trade, to which foreign vessels are not admitted. All the old navigation laws have been wiped out, except that which confines the American flag to ships of American build.

The materials used to build ships have been allowed to come into our ports free of duty. But the chief cost of a ship is for the labor expended in the shipyard; and with more profitable kinds of work open to him, the American

workman will not give his labor at the rates paid in British shipyards. We therefore have had to compete with ships cheaply built and heavily subsidized, while we have not even given our ships as much for carrying the mails as amounted to the postage paid on them.

19. Americans, it is true, have been free to buy ships of foreign build, and to sail them under the foreign flag. Several steamship-lines are thus owned and managed by Americans. But no country ever became a great ship-owning country, except by becoming a ship-building country. Our hand has not lost its cunning. Our fast yachts and swift cruisers — both built at home, regardless of cost — have not been surpassed. The few steamships built in our shipyards are among the finest that cross the Atlantic. But through our neglect of the shipping interest, it has declined in America, while every other has advanced. We are paying — the *London Times* estimates — \$200,000,000 a year for the use of foreign ships, and we are suffering the derangement of our foreign commerce by having to make this payment out of our exports.

20. The amount of foreign trade which a country possesses is sometimes taken as a test of its general prosperity. It would be vastly fairer to take the amount of its domestic trade as a test, as Adam Smith showed. The fact that a country sends a great deal of its products abroad, and brings in foreign articles in exchange, and uses much shipping in doing so, is no indication that it is managing its housekeeping well. Ireland, for instance, certainly is not a prosperous country; yet the tonnage of the shipping which enters and clears from its ports in one year, is eight times as great in proportion to the population as is that which enters and clears from our own ports. In Ireland there is hardly any domestic commerce. Nearly every one is engaged in the same business of farming. No man needs or helps

his neighbor. All are busy serving the foreigner ; and the ships go out loaded with food, and come in bringing nearly everything else that is used in the country. In Ireland, the average of consumption is very low, for while everything the people buy is cheap, they have very little to buy with. In America the average of consumption is the highest in the world, and has become so since we adopted a policy which fosters the growth of home commerce by producing the greatest possible variety in the industry of our people.

21. Foreign commerce is based on difference in climate and capacity among the nations. Its imports should be so balanced by exports as to make it needless to send money abroad. To this end protective duties are useful, and not oppressive to the consumers at home. Reciprocity treaties serve the same end, as does the maintenance of the country's merchant shipping. Domestic rather than foreign commerce is the test of a country's prosperity.

## CHAPTER XI.

### *Free Trade and Protection.*

1. FOR two centuries past people have been divided in opinion between the policy which regards government as having the right and duty to oversee the industrial development of the Nation, and that which would confine it to the maintenance of public order. The latter is called Free Trade, and its friends contend that "no legislation should be of a tendency to divert capital or labor into a channel into which they would not flow without it. When every man is left free to do what he will with his own, he will do what is most beneficial to society as well as to himself. Society is so constituted that it always is profitable for some one to do anything it needs to have done. When government interferes with this natural movement of self-interest, it is sure to do more harm than good. When all men are left to their natural liberty of action, the best results will be obtained, for the natural laws of supply and demand work more evenly and more wisely than any human law, which attempts to interfere with their operation."

2. The Free Traders also say that "there is no need of legislation to foster the growth of manufactures or any other industry. All such industries come as a matter of course, as soon as the country is ready for them. When it has more people than can well live by farming alone, and has acquired a surplus of capital for other industries, then there will be a natural diversion of labor and capital into industries the country needs. To attempt to force the growth of such industries before the time, can result only in a hot-house growth of sickly character, which constantly demands

increasing Protection from foreign competition. Such an attempt also requires the diversion of capital and labor from channels of profitable employment into those which are less so, to the disadvantage of the whole people."

3. The Free Trader describes the Protectionist policy as a miserly one in regard to foreign commerce. "Each country," he says, "has its own advantages for the production of some article which it can supply to the rest more cheaply than they can produce it for themselves. There is thus a natural division of labor among the various countries, as well as within the bounds of each. To refuse to recognize this is as though we refused to recognize the differences of climate, and undertook to raise tropical fruits under glass, instead of importing them. And just as our refusal to buy pine-apples and bananas from the West Indies would result in the reduction of our exports to them, as they could not pay us for our flour if we took no fruit in exchange, so restrictions on other imports work in the same way. Commodities are paid for with commodities. The country that will not import cannot export."

4. The Free Trader also objects to restrictions on the trade between nations as tending to "dearness of the necessities and comforts of existence. It is legislation, therefore, in the interests of a class, and against the general interests of society, as the producers are a class and the consumers are everybody. The interest of the consumer is simply in cheapness, and whatever puts up prices is adverse to his interest."

5. It also is said that "Protection introduces into government a principle of *paternalism*, which tends to Socialism. It teaches men to lean upon the government, when they ought to rely upon their own thrift, energy and enterprise. It thus prepares them for the Socialism in which the individual is nothing and the State everything."

These arguments are put into many shapes, but they cover the case for Free Trade as an economic policy.

6. Protectionists do not deny that in most cases, as society is constituted, the man who is left free to do what he will with his own, will do what society needs to have done; and also that in most cases where there is a social need, it will be profitable for some one to supply it. They do not insist on Protection as a universal principle, as the other party does with Free Trade. They only say that there are exceptional cases in which the principle of free competition does not work satisfactorily, and that in these the collective action of society is needed.

Even the Free Trader admits these exceptions in practice, while denying them in theory. (1) He does not leave education to free competition, as that has been tried and does not work well. (2) He does not propose to leave the carriage of letters to free competition. He supports the Post Office, knowing that if we had none, we should see very bad and costly service in the poorer parts of the country. (3) He does not leave Money to free competition. Not only does the Nation coin all the bullion money, but it lays severe restrictions upon the issue of paper money. We once tried Free Trade in paper money, and the results were very bad. (4) He has to admit that our leaving farmers and lumberers to do what they will with their own in the matter of our forests, has not resulted in their doing what was best for society. By clearing the country too completely they have injured the fertility and disturbed the rainfall, so that droughts follow floods, and floods follow droughts. (5) While the Free Trader holds that government should do nothing for manufactures, he is quite ready to have it do a great deal for trade, in constructing and dredging out harbors, blasting rocks, digging canals, promoting railroads, and the like. The English Free Trader goes a little farther, and

besides spending many millions of public money on docks, he pays heavy subsidies out of the public Treasury to steamship lines, so as to reduce the cost of carrying the goods of British manufacturers to every part of the world. (6) The Protectionist merely adds one more exception to this list, and insists that a country may be in great need of manufactures, and yet that it may not be profitable for individuals to establish them without help from the community in the shape of bounties, or protective duties, or any other means that may be thought better than these.

7. It is argued that we will get all we need if we will wait long enough, as industries grow up naturally, whenever the growth of population and of capital favors them. It is quite true that they would grow up naturally, if there were no interference from without. But the richer and more advanced countries, being already in possession of what they regard as the more profitable industries, spare no pains to prevent their growth elsewhere. It is shown in reports to the British Parliament that their capitalists even make great sacrifices to prevent the growth of rival industries in other countries, by putting prices so low that the new manufactures cannot compete with them. If all the world were equal in the command of capital and the growth of industrial power, Protection would not be needed. But we must take the world as it is, and it is a world of gross inequalities.

The situation in Ireland shows how the growth of manufactures may be retarded, even when the population is too dense to live by farming alone, and there is surplus capital for the other industries. The Irish have made many trials to start manufactures, but they always have been foiled by foreign competition.

8. That protected industries are not hot-house plants is shown by history. The three greatest of English industries, woolens, iron and steel, and cottons, owe their very existence

to Protection, and are now firmly established. The same is true of every great European industry which is now fighting for the world's markets.

9. While Protection does divert capital and labor into channels into which they would not flow otherwise, it does not usually divert them out of any other channel in which they are flowing. No country can have more industry than it has capital and labor; but most countries have a great deal less. The Connecticut towns, for instance, which have become manufacturing centres during the last half-a-century, have not done it by taking capital or labor from farming or anything else. These new industries have found work for idle hands, idle savings and unused credit. No country has so much of these idle things as one which cannot give its people any employment but farming.

10. That there is a natural division of labor among the Nations, and that foreign commerce enables each country to profit by the advantages of the rest, is the belief of the Protectionists equally with the Free Traders. They differ only in that Protectionists believe it is wasteful and spendthrift for a country to buy of another what it can just as well make for itself. Nor do they think that the fact that some countries can at this moment make an article cheaper than we can, is a reason for not trying to make it, if we have the means and the skill.

John Stuart Mill says, "The superiority of one country over another in a branch of industry often arises only from it having begun it sooner. A country which has this skill and experience to acquire may in other respects be better adapted to the production than those earlier in the field; and besides, it is a just remark that nothing has a greater tendency to produce improvement in any branch of production than its trial under a new set of conditions. But it cannot be expected that individuals should at their own risk, or

rather to their certain loss, introduce a new manufacture and bear the burthen of carrying it on until producers have been educated up to the level of those with whom the processes have become traditional. A protecting duty continued for a reasonable time will sometimes be the least inconvenient mode by which a country can tax itself for the support of such an experiment." Mr. Mill was a Free Trader, but he said once, "I do not say that if I were an American, I should not be a Protectionist."

Prof. Thorold Rogers, another English Free Trader, says that "the circumstances in which" the United States and the British Colonies "are situated exactly square with the hypothesis of Mr. Mill. The countries are young and rising, —industries, as yet nascent, are thoroughly suited to the natural capacity of the region and of the people. . . . There is no reason, apparently, except that of priority in the market, why the industry of the old country should not be transplanted to the new."

11. That commodities should be paid for with commodities in international trade, is just what the Protectionist asserts. That they always are so, history disproves. We have exported hundreds of millions of much-needed Gold to Europe to pay our balances. Japan has lost all her Gold in the same way. Portugal lost both her Gold and her Silver in the same fashion during last century. Russia was losing all hers when she went back to Protection in 1823. It is no answer to say that Gold when exported is "merely a commodity like any other." The common sense of the whole business world regards the export as a national loss, because it cannot be afforded.

Protectionists desire the freest of trade in whatever the country cannot produce for itself. They remove the duties from tea, coffee and spices for that reason, while Free Trade countries tax these heavily. But they believe that a Nation

which spends more than it makes, or exports more than it imports, is a spendthrift, and will come to grief.

12. That the interest of society is in mere cheapness, whether the producing classes prosper or the reverse, Protectionists do not believe. If that were true, then *hard times* would be the best of times, for they are the times of greatest cheapness. In fact it is impossible to sunder the interests of the producers from those of the consumers, especially in a country like ours, where every one is a producer of some sort. To do so is to act like the man who refused to take quinine for the chills, because the chills were in his back and not in his stomach, where the quinine would go. We are all one body, and if one member suffer, all the members suffer with it. Better therefore than a low price for a thing is a fair price, at which the producer can live comfortably. If we pay less, his loss is likely to come back to us in some shape.

13. The Free Trade argument fixes attention exclusively on the price of what we buy. But no man prospers simply by the cheapness of what he buys. His interest is in the ratio of the price of what he buys to that of what he sells, whether it be clothing he has made, or wheat he has grown, or brain-power he has put at the service of his fellow-men. And this ratio is most favorable when all kinds of industry are associated, when most power is spent in producing and least in transportation, and when there is least idleness of capital and of labor.

In this respect Ireland furnishes the contrast to America. In Ireland everything is done for the consumer, and little or nothing for the producer. Everything is cheap in Ireland, and her people fly from this cheapness as from a blight, to find employment for muscle and brain in other lands. An Irish immigrant in America was grumbling that he "could buy as much for a shilling in Ireland as for a dollar in America."

"Why did you not stay there?" he was asked. "Because I could not get the shilling!"

14. It is of no advantage to the farmer to be able to buy clothing and hardware cheap, if he has no home market in which to sell his produce. He can sell some things indeed to the foreign artisan who supplies him, but even of these not a quarter so much as the same artisan would consume if he were working in America. If the farmer had to exchange his wheat directly for plows, ox-chains, dress-goods, and the like, he would find how great his advantage is in dealing with the home manufacturer. It is the fact that money is used as the medium, which conceals this advantage.

15. The price of raw materials and of manufactured goods approach each other most nearly where the one is converted into the other. If all our paper-mills were on the Hudson and the Delaware, the price of rags and of paper would be nearer to each other there than anywhere else. As one went westward he would find rags fall and paper rise in price. This is true of all raw material as compared with manufactured goods; and food is but one general form of raw material, needed for all manufactures equally. It is therefore the interest of the producers of raw materials and of food, that they should be in the neighborhood of those who effect the conversion we call manufacture. There they get the largest share of the manufactured article in exchange for the raw material.

As already shown (p. 78) this interest is opposed to our railroad policy as well as to Free Trade.

16. The workingman finds his interest in Protection because (1) whatever tends to increase the variety of employment in the country increases the demand for labor of all kinds. Merely farming countries are full of idlers, who live off the earnings of those who have work. (2) Variety of employment creates a competition for labor.

In its absence, employers, being all of one trade, come to an understanding to keep wages down. Hence, even in the same country, as in Belgium and in England, wages of labor are much higher in districts where there is manufacturing, than in those where there is only farming. (3) Every country has its own kind of public opinion as to the style in which its working classes ought to be able to live. This demands in America a much higher standard of comfort than in Europe. But if the products of European labor and capital came in free of duty, it would not be possible to maintain this higher standard. Our workingmen would be dragged down to the level of the laborers of monarchical and aristocratic societies. Under the Protective Tariffs of 1860-1892, the American standard rose faster and higher than in any part of the world, as was shown by the inflow of European labor to secure the benefits and the (alleged) disadvantages of Protection. Whether it was better to admit it or to exclude it, is not here the question. The fact was that it came.

17. The Constitution of the United States says that government is established to "promote the general welfare." In all countries it is held responsible for this. Parties have been driven from power in our own country because business distress prevailed under their administration. In Europe violent revolutions are almost always associated with popular distress and scarcity. To insist that the government shall abstain from all management of industry, is to refuse it the power to discharge this responsibility. It is to limit its powers as the nations in fact never have agreed to have them limited. Now Protection makes no more interference with the movement of industry than is sufficient for its purpose. It does not do anything for individuals, or confer personal advantages of any kind on them. It merely creates a new industrial condition, which every one is equally free

to take advantage of. By enlarging the number of employments it also enlarges the range of individual liberty, as it gives greater choice of fields of labor. It thus helps to develop that individuality in the working classes which Socialism seeks to destroy. It leads away from Socialism, not toward it.

In this connection it is well to remember that we do not have Protection because we have manufactures but manufactures because we have had Protection.

18. Protection and Free Trade are in controversy. The former is unfairly charged with artificiality, hostility to freedom, class legislation and paternalism. It has the sanction of even Free Traders in their wiser moments, and can be defended as a benefit to all classes.

## CHAPTER XII.

### *Communism, Socialism and Anarchism.*

1. OUR modern system of land, labor and industry is based on private ownership and competition. Land is distributed among owners in severalty and they are given almost as complete control of it as though it were clothing or tools or cattle. The accumulations of past labor are mostly in the hands of private capitalists, who pay in wages for the labor of the working classes, and make such bargains as they can in the labor-market. Transportation by sea and land is carried on by individuals and private or semi-private corporations, under the laws which control the common carrier, while the State takes charge of making common roads only, and in some cases leaves even that to turnpike companies. The extension of enterprise is left to private initiative, and even Tariff legislation goes no farther than to create larger opportunity for private enterprise. Only in the regulation of coin and paper money, in the creation of harbors and water-ways, and the carriage of letters, does the government directly enter the sphere of industry, and undertake to do what the people might be left to do for themselves individually or by co-operation.

2. To this whole system of private management objection is now brought on the ground that it inflicts injustice upon the people at large, while enabling a few individuals to acquire an excessive share of the wealth produced by common labor of all. Those who make this objection belong to several schools. (1) The *Communist* holds that private property is essentially wrong, and whatever has any use that meets a human need should be common property, and

should be placed at the service of every individual who is in need of it. Especially he would have the land held by the State only, and tilled by the people as its members, the harvest being divided among them proportionally to their needs. Something approaching this was the actual usage in primitive society, and something like it may be seen still in countries which have made little progress in civilization.

3. Everywhere the communistic system of property has borne the same fruit. It has kept people miserably poor by taking away all motive to improvement. It has made the individual count for nothing by making society all-powerful. It thus has stereotyped methods of work, opinions and social arrangements. It is only a minority of mankind that has even now extricated itself from communistic slavery of the individual to the community, but it is that minority that has done all that is worth recording in the world's history. It embraces all the free peoples, who govern themselves, while communistic societies and nations always have bowed under the yoke of a master. It embraces all the peoples who have risen to literary culture and social refinement, and have learned to think each for himself, instead of taking his opinions at the hands of others. It also embraces all the nations who have risen out of the poverty of the savage or the lower type of barbarian, and have secured a high standard of living for their people. The equality which Communism secures is the equality of pauperism, ignorance and political subjection.

4. (2) *Socialism* approaches the question from a more modern point of view. Recognizing the fact that the actual product of the world's labor is less important than the instruments of production by which the stock is maintained, it proposes to take those instruments into the hands of the State. Beginning with the railroads and the telegraphs, it would gradually or quickly transfer the ownership of all the

capital of the world to government, and vest in it the direction and extension of enterprise. To secure a proper distribution of labor to meet the actual needs of society, it would vest in the government the power to prescribe to each on what he should spend his time, instead of leaving this to personal tastes, or to private opinion of what needs to be done. It would pay every worker in a check, which would certify the time he had spent in the production of the article he furnished, and it would make these checks receivable for products produced by the same amount of time spent by workmen of other kinds.

5. The Socialist urges as a reason for this industrial revolution some very keen and often instructive criticisms upon the system now in vogue. Part indeed of his criticism grows out of false and exploded theories of the political economists, which were in vogue when Socialism became a system. One of these was the notion that land derives its value from the natural and inherent properties of the soil, and not from human labor expended on it or on land in its neighborhood (see page 19). Another was the notion that there is a natural and necessary rate of wages, being the amount needed to keep up the supply of workmen, as though it were a breed of domestic animals, whose wills were not to be taken into account (see page 27). Yet another was the theory that rent of land grows out of its monopoly by the first in possession, as these took up the best lands, and those who came later had to pay them rent, or put up with worse soils (see page 15).

If these things were as the economists declared, then our industrial system must be too bad for anything but destruction. But they are not true; and under our system of private ownership and free competition there is a steady tendency to equality of condition, not to the misery and enslavement of the mass of mankind.

6. A second line of attack is on the immoralities which are associated with the present system of industry. The Socialists point to the selfishness and greed with which men pursue wealth, to the direct injury often of those with whom they are competing for markets or for employment. They remind us that employers often show themselves careless of the health, the lives and the morals of their working people, in order to keep down the cost of production and secure high profits to themselves. They make a dreadful exhibit of the *sweating system*, by which immigrant labor is employed in all our large cities on wages which hardly suffice to keep the worker alive. They point to the envy with which classes regard the prosperity of other classes, and the evil acts which grow from this bitter root.

All this is true, but it is not the fruit of our industrial system, but of the low morality of some of those who are in control of the system. Nor will the progress of society be achieved by abolishing the possibility of wrong-doing, for that cannot be done without also abolishing the possibility of free right-doing. You cannot take away from men the opportunity of being selfish, without also taking away the opportunity of showing themselves unselfish. True progress must be found in carrying social opinion forward to the point at which men will find more happiness in unselfish kindness than in selfish gain. Socialism means moral despair of any such future for the race.

7. Society does need a higher standard of right in matters of business and industry. It needs that every employer shall see in his workmen not merely "hands" but men,—not things, but persons,—not means to his own ends, but ends in themselves. It is their feeling that they are nobodies in the social system which breeds discontent and envy. And not the rich only, but every one of us can work to prevent the spread of that feeling, by treating every

human being who comes into our lives as a person, that is, as an end in himself.

Society also needs that men shall accept a higher standard of success in life than gain. The workman who would not carry Mr. Girard's pile of stones back across the yard, no matter what he was paid for it, had a right instinct. He felt that use, not gain, is the true end of a man's work. When masters and men alike recognize that principle, there will be industrial peace; and then it will be felt also that no man has any right to make any gain except for rendering an equivalent service to society. But Socialism never will help us to such results as these. It despairs of them.

8. A third line of attack is on the *economic defects* of our industrial system. This especially concerns the recurrence of times of business panic and of depression, by which a great number of workmen are deprived of employment without any fault of theirs. It is said to be monstrous that the world should need their work as really as before, that they should be as willing to do it, yet it cannot be done and they must suffer in idleness. If the State had the direction of industry, such interruptions of the world's work could not occur, as business would not then be subject to the depressions and panics which occur under private direction. The working classes would thus be saved from grave *social risk*, to which they now are subject.

It also is objected that in our present system there are openings for dishonesty in the wrecking of railroads, in speculations to force up the prices of necessities, and in adulterating the quality of food, clothing and medicine, which would disappear under the State's direction of industry.

9. These economic objections are the most forcible arguments for Socialism that its friends have ever presented. Yet every one of them is an evil which could be remedied

without overthrowing our present system of free labor and free capital. Business could be put upon a much sounder and more secure footing than it now is ; and legal remedies could be found for the grave dishonesties of corporation management.

But even if this were not true, it would be a heavy price that we would pay to rid ourselves of these evils, if we had to give up the personal liberty to make what each of us pleases of his own life, and to accept instead the State's control of us. That would mean the unlimited domination of the average man, his tastes and judgments, over the rest of society. Freedom may cost much, but it is the precious heritage transmitted to us by our fathers, who struggled out of social tyranny into personal liberty of action. No people that has really tasted it, will revert permanently to a system which makes the State omnipotent.

10. (3) The *Anarchist* does not so much concern us here, as his programme is simply the abolition of government, except as it may be judged expedient from time to time to extemporize some sort of Lynch-law to abate social nuisances. He would come swiftly to a kind of communism, by abolishing all public guarantee of the rights of property, and thus throwing everything open to the strongest hand that could seize it. The Socialist would take us back to barbarism ; but the Anarchist improves on the proposal by suggesting a return to savagery.

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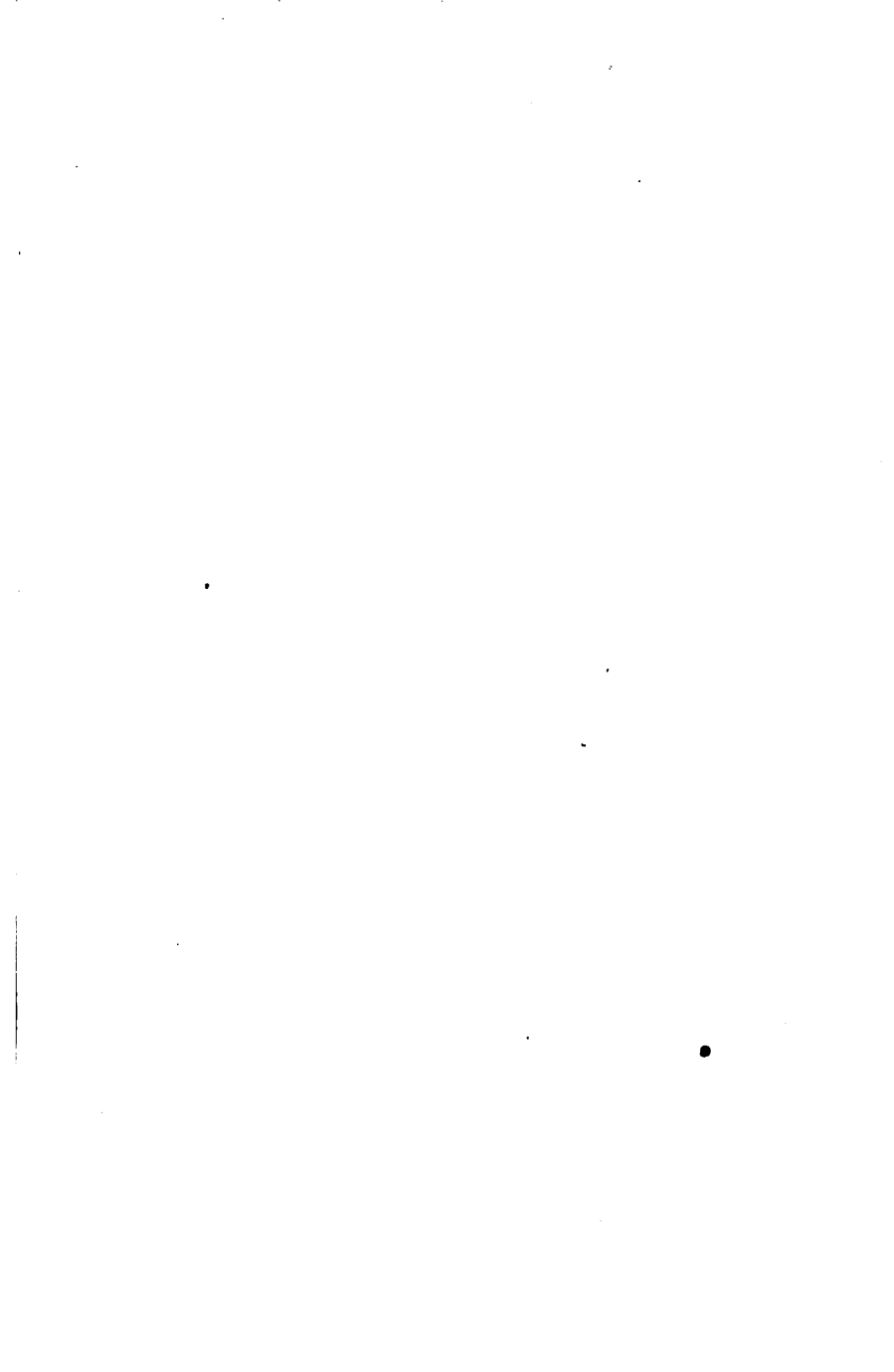
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